



HOME NEWS

London 'getting too big a share of housing funds' report says

By John Young
Planning Reporter

The allocation of housing funds is "outrageously" distorted in favour of London to the detriment of other large conurbations in Britain, according to a report published today.

The Department of the Environment yesterday declined to comment on figures produced by three voluntary agencies in Liverpool since it had not been sent a copy of the report. Unless it can disprove them quickly, however, they seem certain to create a political furor.

According to the report, of £43m allocated to housing associations for rehabilitation work this year, Liverpool and Manchester each received 2.5 per cent while London was given 70 per cent. Of £5m owed for maintenance, London took £40m, compared with Manchester's £2.9m.

The report observes that, despite the Government's declared intention to divert resources from redevelopment to restoration, new council building consents fell only marginally from £1.267m in 1974-75 to £1.189m in 1977-78. In the same period improvement approvals for councils, housing associations and private owners declined from £1.085m to £535m.

That, however, is largely common knowledge. What is striking is the alleged distribution of available funds.

For example, the report states that this year Liverpool, with an estimated 225,000 people living in terraces built before the First World War and in multiple occupation, was allocated

only £200,000 for a "modest" programme of acquisition and improvement. The far smaller towns of Bolton and Warwick received £500,000 and £300,000 respectively.

Allocations for loans and mortgages in Liverpool were less than in Norwich, Windsor and Maidenhead, and ran out last May. Municipal lending amounted to £9.32 a household, compared with £15.19 in Blackburn, £16.25 in Camden, London, £29.94 in Manchester and £59.50 in Norwich. An estimated 70 per cent of Liverpool applications referred to building societies were refused.

Similarly, improvement grants in Liverpool had to be stopped within a month of the start of the financial year. In 1977-78 only 850 owners will benefit.

According to the report, the total sum of £5m owed under section 105 of the Housing Act, 1974, will amount to £387.40 for every private household in Islington, London, compared with £58.40 in Liverpool, and £11.60 in Manchester.

Islington's total £20m allocation for all housing purposes is twice that received by either Liverpool or Manchester and greater than the allocation for Birmingham, which has six times the population and 75,000-1919 houses, more than Islington's total housing stock.

"The distribution of public housing investment seems to be determined in a rather arbitrary way which bears little relation to the known scale of housing problems, but in almost every area of funding London receives a disproportionate amount", the report states.

Family food spending up by 25p a person a week

Average spending on food for home consumption in the quarter from April to June last went up to £5.15 for each person a week, a rise of 25p compared with the previous quarter. Spending for the average family went up by 72p, from £14.46 to £15.18.

The National Food Survey, published today, shows that food spending per head, as well as spending a household, varies with the number of adults and children in the family. That is why the weekly food bill for what one might consider a more average family of four, two adults and two children, has gone up to only £18, an average of £4.50 a head a week.

The survey says that average

food spending in the quarter rose by 5.1 per cent on the previous quarter, and food prices paid by households in the survey went up by 2.8 per cent. That implies a rise of 2.2 per cent in the "real value" of food bought, mainly because more poultry and ham was purchased, and there was a seasonal changeover from old potatoes, root vegetables and canned soups to new potatoes, salad vegetables and ice cream.

Compared with the previous year, food spending went up by 82p a head, or 18.3 per cent, while food prices rose by 18.6 per cent.

Buying of meat, especially pork, and also potatoes, went up but there were reduced purchases of fruit.



Mounted police accompanying the Rev Paul Rose, vicar of St John's Church, Hyde Park Crescent, London, to the Horsemen's Sunday service yesterday.

Mr Maudling to buy back home from Peachey group

By Our Political Staff

Mr Reginald Maudling, the former Home Secretary and Chancellor of the Exchequer, is negotiating to buy back his country home from the Peachey Property Company.

He sold Redwell Lodge, near Essendon, Hertfordshire, to the corporation for £3,000 in the early 1960s when he was financial adviser to the group.

In return the company granted him a 70-year lease at a low ground rent and agreed to maintain and improve the property. The improvements included the building of a swimming pool.

Mr Maudling said yesterday that he was buying back the house for £3,000 and paying a substantial sum to cover the cost of the improvements.

The Peachey company was run until last March by Mr Maudling's friend and business associate, Sir Eric Miller, who was knighted in the resignation honours recommended by Sir Harold Wilson last year. Sir Eric shot himself last Thursday.

He was the subject of three writs issued by the Department of Trade and four by the Peachey group. In March he

resigned as chairman and managing director, and a month later the Department of Trade announced an inquiry into the group's affairs. In May, after a controversy about large sums said to be owing to the company, Sir Eric was voted off the board.

Mr Maudling yesterday declined to give details of the rent he paid under the agreement. It was his private affair, he said. The terms were acceptable to the Inland Revenue, which had been fully informed from the beginning.

The details were also known to those who investigated the Foulton affair, and no one had made any criticism, he said.

Lord Mair, who succeeded Sir Eric Miller as chairman of the group, said on Saturday that he was satisfied that the Peachey shareholders had not lost over the Maudling deal.

Views on cane sought

Teachers in Nottinghamshire are to be asked to give their views to the county council on the use of the cane so that experts can assess whether it is proving a deterrent.

Howe call for fewer laws

By Our Political Staff

Britain is suffering severely from economic decay caused by "legislative pollution", which is now doing real harm and reducing the national wealth. Sir Geoffrey Howe, Opposition spokesman on Treasury and economic affairs, says in a Conservative pamphlet published yesterday.

He argues that nearly every law has some economic effect, and usually more than lawyers appreciate. Every new law, regulation, and code of practice can involve the community in some net cost, and the cost of enforcement by the state is often much less than the cost of compliance by the community or group affected, he says.

"It is now our duty of Parliament to resist the temptation to add any more. We must make fewer laws and make the laws fewer."

Private members' Bills often demonstrate the strength of the temptation. He said he hoped that constituency selection committees had stopped asking prospective candidates: "If you were lucky in the ballot, what private member's Bill would you introduce?" If the habit still persisted, there should be only one acceptable response: "A Bill to repeal as many statutes as possible."

It needs to be recognized, he says, that poverty is seldom best tackled by intervention in the market process. "The trussing of the housing market by rent control and by subsidies which are attached to buildings rather than to people should, for example, be replaced by measures which tackle poverty more specifically and directly."

A particularly baleful eye should be cast at those laws and institutions whose survival has depended on the assertion of quite inconsistent reasons.

"The shop closing legislation, for example, was originally introduced for the benefit of the economy in the First World War. It has subsequently been defended in the name of shop workers and/or small shop proprietors. Yet it is widely disregarded and it is hard to see the case for its survival."

Similar councils present a similar case, he asserts. The birth was fostered by the "anti-sweating league" in 1906. By 1918 they had become an instrument for the reform of industrial relations and by 1945 for the general extension of negotiating rights.

Now the basic purpose of the system was confused and some of the different purposes attributed to the system were contradictory.

Laws of which their intended beneficiaries are unaware need critical examination. So do those that cannot be understood by those to whom they are addressed, he says. "It was disturbing, a few months ago, to read the statement made by an MP charged with a speeding offence, that he could no longer remember what the speed limit was on a single carriageway in rural areas. The old tag that 'ignorance of the law is no excuse' begins to wear very thin in such circumstances."

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WEST EUROPE

Issue of monarchy or republic likely to reemerge in Spain

From William Chislett
Madrid, Sept 25

The sensitive issue of whether Spain returns to a republic or keeps the monarchy under King Juan Carlos is being quietly shelved for the moment as the country experiences the birth pangs of democracy. But with the return last week of the former President of the Republic Government in Exile after 38 years the issue is likely to raise its head again.

Señor José Maldonado, aged 76, one of the founders of the recently legalized Democratic Spanish Republican Action (ARDE)—the first avowedly republican party to be authorised since the death of General Franco—is convinced that Spain will have its third republic in the not too distant future.

"The monarchy has been re-established not as Alfonso XIII, the grandson of Juan Carlos, would have wanted. Señor Maldonado told me, seated in a modest hotel in Madrid, 'Alfonso said that the monarchy had disappeared as a result of the people's wishes and that it had to be restored with their permission.' (Alfonso XIII left Spain in 1931.)"

"The monarchy was re-established (General Franco named Juan Carlos to be his successor) without the people being consulted and now it is trying to legitimise itself through subterfuge."

But the serious problem is that the conservative classes which support the monarchy—not because they are necessarily monarchist but because they can safeguard their interest better that way—are going to find that the Spanish society of today, the socio-economic structure very different from the one we knew in the Second Republic. A time will come when the needs of this society will not be compatible with those of the monarchy."

Then there will be tensions and confrontation and the violence—if the people's wishes are respected—I suspect that the wearing down of the monarchy on the one hand and the impetus of the new Spanish society on the other will end with a republic. Do not forget that the left parties, which were

so successful in the general election, prefer a republic and if they accept the monarchy at the moment it is for reasons of circumstance."

The Socialists and Communists won 144 of the 352 seats in the Lower House of the Cortes. Their attitude towards the republic was best summed up by Señor Santiago Carrillo, the Communist secretary general, when he said that the immediate 'problem' facing Spain was 'not monarchy or republic, but democracy or another dictatorship'.

For Señor Maldonado a full democracy was only possible in a republic and for this reason he thought that Spain would eventually be a republic again.

He did not believe that a referendum should be held on the subject. "People would just be asked to say 'Yes' to a monarchy or a republic and this would not determine what kind of monarchy or republic."

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Madrid plan for Cortes motions of censure

From Our Correspondent
Madrid, Sept 25

The Spanish Government submitted an urgent draft law to the Cortes yesterday which would regulate parliamentary control of the Government during the transition period while the new constitution is drafted.

The draft law, which is expected to be debated by the Cortes soon, would enable the opposition to propose motions of censure, but no motion is made of what would happen if a censure motion was successful.

At the moment the Government is not legally obliged to do anything if a censure motion is approved by the Cortes. Under the draft law, approved at Friday's Cabinet meeting, a censure motion would need the signature of 25 members of the Congress, the lower house of the Cortes, or 15 senators, members of the upper house. Before it could be debated, the Congress and the Senate would have to hold a preliminary session and the motion would succeed if it gained a majority of votes.

If the censure motion was rejected, the Government would not be asked for another for three months.

Under this law, which should be approved unless all the opposition groups combine against it, it would be virtually impossible for the present Government to be successfully censured given the composition of the Cortes. The ruling Democratic Centre Union has an overall majority in the Senate and a working majority in the Congress.

The Government has decided to send this draft law to the Cortes under the urgency procedure after the recent unsuccessful attempt by the Spanish Workers Socialist Party, the strongest opposition party, to censure Señor Roberto Marín Villá, the Interior Minister, over his handling of law and order.

Three more political parties have been legalized. They are the Communist Left, the Revolutionary Communist League, the National Front of Catalonia.

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WEST EUROPE

Madrid plan for Cortes motions of censure

From Our Correspondent in Madrid, Sept. 25. The Spanish Government has announced a plan to bring the Cortes to a vote on a motion of censure against the Government. The motion is expected to be passed, and the Government is expected to resign. The motion is expected to be passed, and the Government is expected to resign.



Mr Callaghan and his wife relaxing at Positano on the Amalfi coast yesterday after the Prime Minister's discussions in Rome.

A new role in politics for Herr Strauss

From Gretel Spitzer in Munich, Sept. 25. Herr Strauss, the new leader of the Christian Social Union, was yesterday chosen by the party congress to be the Minister-President of Bavaria if the CSU retains control after the state elections next year. Herr Strauss, 71, who has been Minister-President for the past 15 years, formally proposed Herr Strauss as his successor. When he asked the delegates to accord Herr Strauss the support and loyalty which he had enjoyed, they greeted the proposal with prolonged applause. Barring unforeseen developments, this should end the speculation about Herr Strauss's political future. He is now 62. Herr Strauss was elected party chairman for the fourth time, with the support of 750 of the 775 delegates who cast their votes. He was the only candidate for the post. The Bavarian state elections were scheduled to take place in September 1978, to be preceded by municipal elections in March. In both elections, the CSU hopes to make further electoral gains. The party also expects to provide for the first time the Chief Burgomaster in Munich, which has been a social Democratic stronghold. Unlike the Social Democratic and Free Democratic parties, the CSU is not racked by factional fights and clashes with its youth wing. A sense of its confidence characterized the congress. Internal security and the problem of terrorism dominated the congress. After the kidnapping of Dr. Ingeborg Schreyer, the Minister of Education, a working group produced a paper, entitled "Freedom, law and order, or insecurity, fear and terror", which was added to the agenda for discussion. The paper proposed an offensive programme to restore internal security was unanimously adopted by the congress and will play an important part in the forthcoming Bundestag debate on internal security. The paper demands further measures against those who sympathize with terrorism and against the intellectual roots of terrorism, particularly in the churches and in the universities. The Government coalition against constitutional change was blamed for having grossly neglected to tip terrorism in the bud, and it was further criticized for playing down the problem when it emerged. The quandary the West German state faces in this respect was summed up by Herr Strauss in his address. He recalled that after the Second World War the Germans were asked why did they not resist Hitler right at the beginning? Now they were not making the same mistake and were not willing to put up with terrorism; they were demanding action from the Government. "When we demand action some speak of a police state, fascist methods, and the like. But you can take any but that if you do not cope with the terrorist movement and it spreads beyond West Germany's borders into other European countries, then nothing will save us from having the world point an accusing finger at us and say: for the third time in this century the Germans have upset the peace of Europe." Herr Strauss appealed to the foreign delegates at the congress to help to win understanding abroad for the German situation.

Communist-Socialist rift grows wider in France

From Charles Hargrove in Paris, Sept. 25. The breach between Socialists and Communists since the collapse of their summit meeting on Friday shows every sign of widening. The efforts of the communists to put pressure on their allies to surrender, by sending delegations and petitions to Socialist Party Headquarters, are not calculated to improve the atmosphere. Nor the suspicion voiced by the Socialists that the Communist Party made up its mind to "take off the summit" because of a fundamental shift in its policy on the Union of the Left. Demonstrations by Communist workers, calling on Socialists to explain their and to unblock negotiations, were described by Gaston Defferre, the Socialist Mayor of Marseilles, as "provocation". He wondered whether the Communists wanted democracy, or a "populist democracy" such as some countries like Czechoslovakia suffer from." The Communists have denied that either the party or the Communist-led CGT trade union organization had anything to do with staging these demonstrations. In fact, the party told its militants not to take part in them, although they will no doubt demonstrate all the same. M. Francois Mitterrand, the Socialist leader, will not make his views known on the breakdown of the summit before Wednesday, when he holds a press conference. But his deputy, M. Pierre Mauroy, said in Nantes on Saturday that it was the Communists who decided to break off negotiations on the updating of the common programme of the left. M. Mauroy was convinced that the Communist Party was in the throes of self-questioning, about itself, its difficulties, its ideology, its identity. "It has trouble finding its place in a country like France with the ideology of a developing country," he said.

Thousands fill basilica for Mass by Pope

Rome, Sept. 25.—The Pope, the eve of his eightieth birthday, spoke today of his approaching death after celebrating a majestic Mass in St Peter's. Thousands filled the basilica for the service in which a 2,000-member choir participated. The Pope said he was overcome with joy at celebrating Mass in this basilica, the centre of the Catholic world. His mid-day Mass, drawing 60,000 people in St Peter's Square, he said: "We are fragile, the fragility of the human condition." The Pope at 80; page 12.

Abortion reform rejected by Swiss voters

Geneva, Sept. 25.—Swiss voters today rejected a proposal to make abortions legal during the first 12 weeks of pregnancy. They also rejected a motion to reduce pollution by imposing stricter regulations on the lead content of petrol, and to make it more difficult for landlords to increase rents. However, a fourth motion was accepted, aimed at reducing the number of national referenda in Switzerland, where people go to the polling booth almost every weekend to vote on national or local issues.—UPL

OVERSEAS

Mr Dayan says there is no policy change on PLO representation

From Patrick Brogan in Washington, Sept. 25. Mr Moshe Dayan, the Israeli Foreign Minister, insisted today that there had been no change in Israeli policy. Speaking on television just after the announcement from Jerusalem that Israel accepted the American proposal for Palestinian representation at the Geneva peace conference, he said that his country refused to negotiate with the Palestinian Liberation Organization (PLO) under any circumstances. His interpretation of the proposal leaves only a symbolic role for the Palestinians, who will take part in the United Arab delegation at Geneva. Mr Dayan said: "I don't think you can conduct serious negotiations around a table in Geneva." The decisions must be taken by the leaders in their capitals, he stated, adding that someone would have to go back and forth between the cities to achieve progress in the negotiations. The Minister, in his opinion, would have to be American, but need not be Mr Cyrus Vance, the Secretary of State. Once again Mr Dayan insisted on Israel's implacable opposition to the PLO. He said that even if that organization accepted the United Nations Security Council Resolution No. 242, which implicitly recognizes Israel's right to exist, and even if it also specifically recognized Israel, the Israelis would still refuse to negotiate with it. Its purpose is to set up a Palestinian state between Israel and Jordan, and Mr Dayan said Israel would never accept such a state. He produced, and read from, the memorandum signed by Dr Henry Kissinger, the former Secretary of State, in September, 1975, in which the United States formally agreed not to accept any change in Resolution No. 242 and, if necessary, to veto any change. There have been suggestions recently that the PLO could be persuaded to accept the resolution if it were amended to include a specific reference to the rights of the Palestinians. The State Department has so far refused to comment on the Israeli Cabinet decision, claiming that it needs time to study the text of the announcement. Mr Dayan asserted, however, that Israel has accepted exactly what America proposed. The Jordanian, Syrian and Saudi Arabian foreign ministers will be here this week and the Americans hope to make further progress then. Mr Dayan and Mr Fahmi, the Egyptian Foreign Minister, were in Washington last week and it is believed that Mr Dayan met a senior Egyptian official in Europe before coming here. At these various meetings the question of Palestinian representation at Geneva was discussed at length but it is not the essential matter at issue.

Bangladesh President received in Egypt

From Our Correspondent in Cairo, Sept. 25. President Anwar Sadat of Egypt and President Zia Rahman of Bangladesh held formal talks here today on the Middle East situation, world problems and bilateral relations. General Zia, sworn into office in April, 1977, arrived yesterday on his first visit to Egypt. After today's talks, the Egyptian official Middle East News Agency reported President Zia as expressing full support for the Arab cause and a willingness to extend any help in the search for peace in the region. My people heartily support the Arab cause and are ready, despite our limited resources, to do whatever is asked from us in the search for a solution", he said. In a speech at a banquet which President Sadat gave for General Zia last night, the Egyptian leader said his country would accept nothing less than the repeal of Israeli measures to establish settlements on the occupied Arab territories. President Zia said a just and durable Middle East peace could not be realized without Israel's withdrawal from all occupied Arab territories and its recognition of the Palestinian people's rights, including the establishment of a homeland. The two leaders also discussed ways to strengthen relations between their countries.

US envoy in Beirut on peace mission

From Robert Fisk, Beirut, Sept. 25. Mr Richard Parker, the American Ambassador in Beirut, spent more than an hour with President Sarkis today in discussions which almost certainly included a plan for a ceasefire in southern Lebanon. Mr Parker was accompanied by his chargé d'affaires, Mr George Lane, and shortly after their talks President Sarkis sent Mr Selim Hoss, the Lebanese Prime Minister, and the Lebanese commander of the Arab League peacekeeping army to attend a meeting with Palestinian officials. Palestinian spokesmen said later they knew nothing of the second meeting but the Americans are believed to have passed on assurances that the Israelis and their Lebanese Christian allies in the south would abide by a truce if the Palestinian guerrillas in the area obeyed a ceasefire. For the second day running, the state-controlled Beirut radio reported this afternoon that Israeli artillery had continued to shell Lebanese border villages, especially Blat and the Palestinian-held positions in Khiam. Christian forces claimed on Friday that their militia had captured Khiam, but the right-wing radio station in Beirut, whose accounts of the battles have been much more melodramatic than those of the state radio, later said the announcement had been "premature". Israeli aircraft were reported today to have once again been flying reconnaissance missions over the battle areas. Two United Nations observers were today still trapped by the fighting in their post outside Khiam. United Nations officials say they have food and water to last them several more days. On Friday the United Nations observer corps said that in one three-day period they had recorded 228 rounds of artillery fire. Israeli forces had fired 130 shells and 11 rounds of mortar fire into Lebanon. Unidentified forces—the usual United Nations nomenclature for Palestinian guerrillas—had fired two shells and 35 mortar rounds into Israel.

Galilee town hit by rockets

From Our Own Correspondent in Jerusalem, Sept. 25. Israel retaliated with artillery fire again today after rockets fired from inside the Lebanese border struck the Galilee town of Safad. The rockets caused no injuries or damage. However a similar barrage last night on Safad and Kiryat Shimon slightly injured three people and damaged some property. It was announced last night that an Israeli soldier was killed and three others injured in a clash with Palestinian guerrillas on the Lebanon border on Friday night. Israeli sources also confirmed that Palestinians were still in control of the south Lebanon stronghold of Khiam.

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MONDAY BOOK

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Frederick Ashton in Massine's Les Enchantements de la Fée Alcine with Ida Rubinstein's company

Ballet's Shakespeare

Frederick Ashton and his Ballets
 By David Vaughan

(A. & C. Black, £9.75 until November 30; then £12)

"Posthumous recognition is far too late," Ashton himself once said, so I hope he enjoys this big, generously illustrated and painstakingly compiled record of his ballets. Anyone interested in how British ballet grew from almost nothing to international fame within one lifetime will need it, and should buy quickly, while the special price offer lasts.

What a worker Ashton is! The chronology takes 44 pages of small print to list his productions, revivals and revisions of nearly 150 different works, from three-act ballets to a fashion show. I guess the author, like me, has seen about half. Supplementing his observation with contemporary Ashton and his memories of Ashton and his colleagues, he manages to discuss almost every one in his main text.

For that and for the appendices with Ashton's own synopses and working notes, David Vaughan's book is invaluable. And it is a further tribute to Ashton's colossal achievement that I kept thinking of aspects that are completely omitted. No mention, for instance, of how he taught Fonteyn the importance of being a ballerina off-stage as well as on. Looking at the trees, Vaughan seems to lose sight of the woods. His accounts of the ballets often include a catalogue of steps, but too rarely give the reader an impression of how those steps were used, the look, pace and feel of the dance. Also, although he works conscientiously through the entire output, there is no real summary of the total achievement.

Consequently, I think the book will not explain the nature and quality of Ashton's greatness to anybody not already aware of it. He is the Shakespeare of our ballet, probably the only living Englishman creating in any art to whom the word genius may realistically be applied, although he fights shy of that description. But for a serious attempt to define that genius you still need to go back to live Barnes's monograph published in 1961 under the same title as this book. Vaughan's bibliography cheerfully relays it to the list of short articles.

Considered simply as a record, Vaughan's book is remarkably reliable, bearing in mind the need to treat any

Peter Nichols in Rome reviews the 14-year reign of Paul VI, who is 80 today

A Pope who has set the course for the Church of the future

For the Pope to reach 80 is to undergo a sea-change because he himself laid down, with an uncharacteristically adventurous decision, that no one over 80 could take part in the election of his successor.

History will probably spend a lot of energy weighing the importance of that decision. It marked the first limitation on the prerogatives of the Cardinals since they emerged centuries ago as the electors, and the sole electors, of Popes.

So much needs saying because of the constant repetition of the judgement on Paul VI's reign that only history can say whether it has been a success or a failure.

This is one of a whole series of labels which have dogged the career of this tormented Pope. As a comparatively young man in the Secretariat of State, he was already talked of as a future Pope. During John XXIII's brief cyclone of a reign, he was said surely to be the next Pope. John himself saw him as his certain successor, but was heard to refer to him as "amletico", and so an ageing Hamlet is forever being evoked as Paul VI limps, a little painfully, because of rheumatism, about his roof-garden.

Roger Peyrefitte publicly made the insinuation which might be expected from that source, and the Vatican's public relations apparatus lacked the wit to ignore him.

And now it is history which will have to give the verdict, with the obvious implication that what does not look much of a reign now may bloom and take on lustre as the decades pass. In fact it would be fairer to reverse the viewpoint.

Paul will be in a strong position, once he has finally passed to that "al di la" which he talks about so frequently, to judge his successors on the grounds of whether they have used the opportunities which he left them.

Take resignation: it has been a constant theme of his reign ever since he himself set the guessers going with his visit in September 1966 to the tomb of Celestine V, the thirteenth century Pope who resigned his office. At that time, Paul VI was passing through one of his regular bouts of depression. He was in the midst of a clash with the Jesuits.

Any serious adviser could have told him that he was being about as prudent and constructive in this as a Tory prime minister who clashes with the miners. He said sadly by the tomb that Celestine had been "deceived by those around him"—if he felt the

same himself, he might arguably have been thinking of going.

Paul VI has sometimes given the impression of approaching despair. He sees the devil actually at work in modern life, and frequently says so. To this somewhat lurid form of pessimism, he adds a lack of confidence in people. He frequently seems to be saying, of actions or views which are painful to him, that they come from malice. This is one of the reasons why he is not successful with large crowds, however much he would like to be.

He lacks the gift of making ordinary people turn to him for warmth and encouragement. The essential criticism of his reign is that he insists too much on authority while failing to provide clear leadership, a criticism which is usually associated with his unhappy handling of the issue of birth control.

Certainly he does not visibly enjoy being Pope. His office is awesome to him, not congenial. He attaches a mysterious quality to it which is one of the reasons why he sees resignation, despite everything, as practically the betrayal of a mysterious trust.

There are those who believe that he would resign as soon as he felt that his mental powers were no longer sufficient. Such a decision would have nothing to do with his 80th birthday (though it would have a lot to do with the problem of how a falling reign is, in this very regard, enough is enough).

The real point is not whether Paul VI retires at 80, or later, or not at all. It is that by raising the whole issue, he has left his successors much freer than he was to resign or not, because it will have become a feasible question and not a remote one as it was before Paul made his call at Celestine's tomb. Much of the reign is, in this very regard, projected towards the future.

This is the distinctive character of Paul's reign by comparison with his two immediate predecessors. At times the memory of John XXIII seems to overshadow him, at other times, he himself seems intent not only on defending the memory of Pius XII but on emulating him in some ways. Yet Pius closed an era.

John—very much like the prophet whose name he took—cleared the way for someone else, even if less colourful, to place a stamp on what sort of a Catholic church would face the demands of the modern world.

In a way John betrayed this. He gave away the issue by convincing people that sheer goodness was enough. He gave a remarkable demonstration of how a man who had worked very hard at being simple could make everything around him look suddenly better. He was an optimist.

He used to say that when he woke up in the night worrying, he would ask himself, "Who is running this Church, John, you or the Holy Ghost?" And then he felt better. And he was not a great believer in bureaucracy. When asked how many people worked at the Vatican, he replied: "About half."

This is all part of the splendour of the concept that was John. It did not however have much to say about the organizational future of the Catholic Church and it is not to be wondered at that Paul actually expected during the conclave when his election was certain, fear of the burden of his inheritance from John.

Only on one principal point can it be said that John represented a positively different attitude from Paul on the Church's future shape. John made no pretence at trying to govern the church himself. He decided to call the council was the logical consequence of this attitude: he was practically inviting the church to decide itself how best it should face contemporary changes.

Paul, like Pius XII, has an immense grasp of detail and a capacity for work. If he had worked less, he might have achieved more as a personality. Instead, his ability led him to resume papal government, crushing still more the individual, and to increase his own amount of work by centralizing the machinery of government through the Secretariat of State which is the Pope's own executive office.

This difference between the two Popes is a vital question for the future for two reasons. Popes can expect to grow old in office. And so they must expect that their mental faculties will at some stage begin to fail them. Paul VI was able for most of his reign to depend on the brilliant Giovanni Benelli, now Cardinal Archbishop of Florence, who was by far the ablest of his intimate advisers.

Cardinal Benelli was under-secretary and held the principal administrative reins in his own hands. The Pope felt grateful towards him, and he was also aware of personal tensions around him and so sent him to Florence where he is sure to play a strong part from the beginning in the preparation of the next Conclave.

The Pope himself meanwhile shows, for the most part at

least, a remarkable lucidity for his age despite his physical handicaps. But the dilemma of a Pope who will set only too clearly felt at the Vatican. The central driving force cannot come from a man so advanced in years. It is a dilemma which modern medical science will aggravate because a man can be kept alive but he cannot be kept in command.

The second reason why the question of church government is vital for the future is because it raises the question of whether the next Pope should even try to master the machinery himself. Has he not got a different role to fulfil which requires him to be free of strictly organizational cares?

Most of what one hears is on the lines of a pastoral successor to Paul, though few people who say this give much indication of what they would really expect of a Pope they would accept as pastoral.

Paul himself was like Pius XII, one of the great bureaucrats of the Church and only for a comparatively brief period, as Archbishop of Milan, was he engaged in pastoral work, and even then making a particularly deep impression.

At the time of the resignation issue, his reign nevertheless offers sketches for a pastoral Pope in the future more inclined than he is to change tradition by action rather than hint at change by gestures.

Paul travelled to all five continents. He was the first Pope to fly, but that is irrelevant beside the fact that future Popes will have to set themselves to take representational needs into consideration. He has done all that.

A successor will be able to travel more freely. This freedom will give him the advantage of knowing people and problems better while escaping from the constriction of curial life in Rome.

The blueprint is also available for a radical reorganization of government in the revival of interest shown by the Vatican Council in the idea of the right of every bishop to be heard on questions involving the whole church. This episcopal collegiality looked when the council closed, to be the guiding idea for the future. Even more so because, as forms of practical application of the doctrine, national conferences of bishops were set up wherever they had been lacking and the Pope agreed to meet at the Vatican whenever he should call it together.

At the same time, the Vatican is supposed (and largely does) circulate bishops about decisions to be taken, an innovation which adds heavily to the administrative problems of the papacy. Like so much else that has happened under Paul VI's guidance, collegiality has been put into practice but in an extremely restrained way.

The national conferences are now a regular part of the scene, but they have no jurisdiction.



Paul VI, who is 80 today, set the course for the Church of the future.

cal standing. A bishop's forgoing the right to speak in the Holy See, not with his local conference. The proper channel in terms of ecclesiastical law remains the old one and so the conference cannot strictly speaking, impose a majority decision, even if the minority is of one.

The application of collegiality to the idea of automatic circularizing of the bishops has been found to cut both ways. Bishops who have been unwary enough to issue statements which have not particularly pleased Rome have been told that, because of collegiality, they are obliged to show such statements to the Holy See before issuing them.

And the synod has had a far from brilliant career. It is essentially consultative. The session opened on September 30 is expected to be more interesting than earlier ones, less for the subject-matter than the near coincidence with the Papal birthday which will set the minds of bishops, as with others, the question of the succession.

The question will obviously not be raised but it will be present throughout the debates. Speeches will be watched to see if they indicate some sort of preference for the Vatican's future policies.

All the more so because of the failure to give the synod as such a role in future papal elections. It was an open secret that the Pope wanted a radical reform of the conclave, but was forced to abandon his radical ideas and the document he published on the next conclave showed practically no changes except for such details as a salute to the modern world in having the conclave closed for hidden microphones.

The symbol is clear enough. The Pope is also Bishop of Rome, and the Bishop of Rome is also Pope. Whichever way one looks at the partnership, the papal office has an immediate pastoral function which is frequently overlooked. The papacy has little enough to be proud of as far as the pastoral care of Roman souls since the war is concerned.

Rome sums up much of the Church's great lost opportunity in failing to take a stand against the creation of conditions in Italy's big cities which have inevitably brought both a new paganism in their wake, and formidable new obstacles to the Church's claim to respect.

Too often the Church in Rome has been denounced by members of its own clergy for having chosen the wrong side in a period of genuine social anguish. And Rome produced

the most striking act of discipline in the left wing of the hierarchy, the defrocking of the former Abbot of the Benedictine monastery at St Paul's Without the Walls.

Yet the pastoral obligation is there, so much so that new methods cannot be applied to elect a Pope simply because he is also Bishop of Rome. But the lesson is not as straightforward as it seems. If people who talk of the need for a general issue statements, the Pope must appear in his own diocese who would be accorded primacy because of the unique prestige of Rome, they are unrealistic.

It is somewhat more realistic, at least, the next Pope could overlook the jurisdictional primacy of the papacy which practically imposes on him to be somewhat more than a pastoral figure. Still, a new Pope as a result of Paul VI's work has the opportunity to reinforce his own pastoral activities just as he will have the chance to travel more freely, leave more to the bishops sitting in their national conferences, and listen more to the bishops by asking their synod more seriously.

The Curia naturally fears that an increase in the respect paid to the synod means less weight for the traditional civil service. There are surely right in Paul VI has left the matter in the balance. It does not necessarily have to stay there.

The world farthest away from this atmosphere of calculation where power lies and nearer to the pastoral ideal, is the Third World, and Paul VI's particular interest in Asia and Africa is probably because he feels that a new Christian spirit is more likely to appear there than in the traditional western centres of Catholicism.

It can be argued that the developing countries are not just areas for religious expansion. What the Church is offering is a whole set of social and moral theories which ought to have their attractions for emerging countries. These theories are not collectivist but, as Paul's encyclical *Populorum Progressio* shows, they are not collectivist either.

Above all, the Church would hope to have in return a fresh contribution of evangelical zeal. Once again, the real test will come when the idea of approaches to the developing world is taken up by a successful leader, and the Church is helped by the Pope's insistence on the international neutrality of the Church and his readiness, despite his continued rejection of Marxist atheism, to negotiate with communist governments and receive leading communists at the Vatican.

He has made clear that he regards this outlook as extremely valuable.

The Pope himself would almost certainly feel that the Catholic world, and his successor should show him particular gratitude for having brought the Church through the difficulties of a controversial council without a schism. This is why he feels so strongly against the traditionalist rebellion of Monsignor Marcel Lefebvre and why he speaks with an archivist's harshness about challengers to his authority.

While offering 'kisses' for the future he has been hammering home the strength of his feelings about the weight, in every sense, of his office. He said in his first encyclical, *Humanae vitae*, which he issued in 1968:

"We bear the responsibility of ruling the Church of Christ because we hold the office of Bishop of Rome and consequently the office of successor to the Blessed Apostle Peter, the bearer of the kingdom of God, the vicar of the same Christ who made of him the supreme shepherd of his world-wide flock."

He constantly insists on the huge significance of the Petrine succession and his intention has undoubtedly been to sit the Church for the modern world at a cost to its historical or doctrinal inheritance.

Certainly the Pontiff at 80 will confront the bishops who gather here at the end of this week, including cardinals who will take part in the election of his successor, that the style will have to change. It is also certain that Paul VI, in his election, has been inept, apparently hesitant and anxious way, has already mapped the extent of innovations that can be made by his immediate successors.

This is why the judgment of his contemporaries cannot help but be half-hearted because, all personal considerations apart, nobody wants to know the limits on what the future can bring especially in a field which should still remain for us its miracles and its mysteries. Paul VI misjudged his attempt at renewing his interest in the supernatural in religion by going to Fatima just as he misjudged the issue of authority by applying it unthinkingly to his successors.

But his successors will find more to interest them in the Pauline projections than in Paul's own decisions. They may find, after all including the grumbling, that he will be a more difficult Pope to follow than they thought.

Danger signs in the retreat from political commitment

John P Mackintosh

Most of those interested in public affairs talk and write as if the existing political parties were constant features of the democratic landscape, as if they will always be there. Yet the evidence is of a steady decline in membership. One constantly encounters individuals who have "torn up their cards". It is customary, when this happens in the Labour Party, to say that the party makes its members what they are, not vice versa, and we are all well off without Mr X, but is there never a point at which such losses become damaging?

The Labour Party Conference next week is to be asked to look at the fall off in membership, the official figures indicating a fairly

steady decline since 1952. The last recorded numbers show a drop from 574,905 individual members in 1975 to 539,058 in 1976. But this figure is achieved by counting all the members in constituency parties of over 1,000 (as dues are paid on all of them) and then adding the remaining 523 parties at 1,000 each, as this is the smallest number on which they are permitted to affiliate. Actual investigation indicates that many of these parties have far fewer than 1,000 members. Lord Houghton's report estimating Labour's actual membership at 300,000, while a PEP survey put it at 250,000.

The Conservative Party does not publish figures but surveys by outside bodies indicate that

it also was at a peak in the early 1950s and that it has now dropped by about a half. The Liberals, quite apart from any special problems of their own, have also fallen in membership and the only party that seems to be gaining members is the Scottish (and perhaps the Welsh) National Party.

The same tendencies naturally affect the quality of the intake to the House of Commons. In the past, the parties depend on blocks of talent which come in after periods when that party or its beliefs have flourished. The Conservatives are still living on the 1950-55 intake which produced, among others, Mrs Thatcher, Mr Heath and Mr Maudling as well as Mr Powell. The Labour Party's last similar infusion was in 1964-66 but since then, neither side has gained much.

All this does not mean a declining interest in politics. The level of commentary and the concern shown by those in other walks of life remains high; what has happened is a retreat from commitment to work in the party, and to illustrate the point, how would one persuade an able, active young person to join a party today? There appears to be a rightward drift in the country and there may be people who would be prepared to follow

this through into overt political action.

The kind of programme set out by the Headmaster of Westminster, Dr John Rae (I know nothing of his political allegiances) might well appeal. He advocated the revival of a competitive spirit, reduced taxation, the subordination of the unions to the state and proportional representation, all to restore Britain's level of performance and national pride.

Instead of putting forward such a coherent programme, the Conservative Party is deep in a controversy over its relations with the unions which reveals not only fear of being defeated once again by industrial conflict, but also a deep sense of doubt about the party's capacity to handle these problems. Some realize that if there is a confrontation, it must be won. Others feel that this fear cannot be openly discussed either because of electoral considerations or because they doubt whether they could win (probably the reason why Mrs Thatcher has taken refuge in a referendum). The result is that Conservative propaganda has no prevailing theme and

what emerges is a rather querulous complaint that life is not what it used to be for the middle classes. Quite so, but the party's appeal will always be limited if it cannot strike a broader, national note and if it cannot give its ideas at least a hint of idealism.

Supposing that one is appealing to someone whose inclinations are on the left, could he or she be persuaded to join the Labour Party? Apart from the deadly boredom of constituency party meetings, if the matter is kept at an ideological level, which Labour Party will the person join? If he or she is on the socialist left, there can be little appeal about a Catholicism Government. Presumably the person would be that if Labour loses the forthcoming election, the party will swing further left, the next leader will be chosen by party activists and will be a socialist? But anyone with a knowledge of the party and its history must suspect that even with such a leader and a more left-wing programme, another period of office would be bound to see a return to moderation.

Soon after returning to power the value of staying in the EEC, the need to restore confidence in sterling and to revive investment in the private sector would all have their usual effect. In short, the left would be sold out again.

If the person is a social democrat, he or she will see that many of this group have already left the party. Those who remain are mostly in office, and will be jockeying for prominence whether the next election is won, or lost.

If a left-winger is elected leader, they will decide that the chip is not so bad after all and will come to terms. But it will be difficult for a Labour Government to make a real success of the mixed economy and of membership of the community when large sections of the party are deeply opposed to both policies.

A third aspect of the Labour Party's dilemma in the ascendant at the moment, is the trade union connexion. The trouble with this (very conservative) arm of the party is that it cannot be joined. Like Mr Moss, the new leader of the T&AUVU, one is born into this section and evolved through time.

I believe that the bulk of those who might be active in British politics do not consider that either the Conservative or Labour Parties, as at present

constituted, adequately express their feelings. These are the people who want to tackle the structural defects, industrial and political, in our society from a radical viewpoint, discarding the old ideological divisions of the inter-war years and the stereotyped reactions of the bundles of vested interests which are the chief remaining components of the mixer parties.

David Steel has worked hard to try to draw such persons towards the Liberal Party. His original decision to make a pact with Labour showed his nose for power and his maturity in handling situations. Now, however, the effect of the pact is to maintain the present party structure. If he succeeds, he will have kept the coalition which constitutes the Labour Party intact and, as a result, the Liberal Party will be regarded as an alternative to the present political system.

Anyone in Scotland who is politically interested but unattached is bound to look seriously at the Nationalists. Their appeal is the revival of British public spirit in old conflicts, with people leaving the parties, with inaction always triumphing over radical solutions, it is tempting to say all would be well if the Conservatives made a clean start in an independent Scotland. The only trouble is that most Scots are also British and want the whole United Kingdom to overcome its difficulties. It is an admission of defeat in this sense, to settle for going it alone, even if a separate Scotland could escape all the limitations and frustrations that have bedevilled British politics.

Despite these reasons for avoiding political commitment, some commentators say there is no cause for alarm. The Americans go on well enough with no organized party system. But the weakness of repeating that situation here in Britain is that ministers can only be chosen from among MPs and MPs are only selected after serving for considerable periods as rank and file members of the political party.

If the intake declines in quantity and quality, so does the output. Perhaps the real point of the recent left-wing attack on the senior Civil Service is the realization that many ministers do not march up to their offices.

Democratic theory is right in that the final options in this country are left to the politicians and without adequate capacity at this level the system will decline and eventually collapse.

The author is Labour MP for Berwick and East Lothian. © Times Newspapers Ltd, 1977

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Despite these reasons for avoiding political commitment, some commentators say there is no cause for alarm. The Americans go on well enough with no organized party system. But the weakness of repeating that situation here in Britain is that ministers can only be chosen from among MPs and MPs are only selected after serving for considerable periods as rank and file members of the political party.

If the intake declines in quantity and quality, so does the output. Perhaps the real point of the recent left-wing attack on the senior Civil Service is the realization that many ministers do not march up to their offices.

Democratic theory is right in that the final options in this country are left to the politicians and without adequate capacity at this level the system will decline and eventually collapse.

The author is Labour MP for Berwick and East Lothian. © Times Newspapers Ltd, 1977

"Some people", he confided "have a funny way of saying 'thank you'—kinda insulting. I just mean what I mean."

My wife pressed his earlobe and found out what she has suspected—the handyman required a fairly hefty tip. We had no offered one the first time. She promised to make good the omission if he worked only show up.

So the handyman came. He mounted the stove and said "We would come back the next day. It's a great job. We were pressed into this. We did return as promised. The stove was fixed, more weight was transferred."

That night a note from the management was thrust under our door. We were terrified to read it, convinced that we would bear the message. It read: "We are sorry. NO ENOUGH. To our relief, it was simply a warning that no telephone books were about to be issued and that we should not drop the old ones down the communal waste disposal system."

A few days later the stove went wrong again. This time we went out and bought a spanner and my wife fixed it. The long term. We almost got ourselves to the extent of testing clip a satisfied, warm looking smile.

Oxfam needs books

Almost any book you no longer read or need (paperback or hardback) could be resold in an Oxfam shop!

It may sound dramatic but every 10p we raise in this way could mean the difference between someone going blind or continuing to see. Or eating as opposed to going hungry.

Take the whole family—with books—along to the local Oxfam shop.

If there is not an Oxfam shop in your immediate area, contact the local Oxfam office for advice—It's in the phone book.

I was arriving home from Texas. It had been a pleasant, trouble-free flight with genial stewardesses who, as we approached New York, trotted through the cheap end from the first class section, slurping it into plastic cups and doling them out to the less privileged.

As we touched land the captain, whose voice over the intercom had maintained a comforting, amiable tone throughout, suddenly assumed a different tenor. "Welcome to New York," he grated. "This is the famous one-way system in La Guardia. It means that planes coming in have to join the same line as those going out. The airport's too small. So we've got to wait our turn and it'll be several minutes yet. Welcome to New York."

My heart leaped and tears began to well. This was it. Home. Away from the smiling, easy-going south-west and back into the familiar New York aggro, where things do not work as they should and people snarl at each other to make amends. It is always but always wonderfully comforting to be back.

There is something weird and unsettling about the west, the south, the midwest and indeed anywhere in this country

away from New York City. People smile too much; everything moves at a slow and easy pace; nobody carries or raises his voice. People behave like the men from the Hare Krishna sect, smiling his Jimmy Carter smile, who accosted me as I waited at Houston Airport and tried to sell me a book. I was as rude to him as I could manage and he simply went away good-naturedly, still grinning, even smiling.

The hotel I stayed at in Houston has a valet parking system. Arriving guests have to hand their keys to the smiling black doorman in exchange for a ticket, and he phones down to the underground garage for the car when they want to leave.

I find this system cumbersome and grew impatient at the long delay before my car was produced. So I barked angrily at the doorman.

Now a New York doorman would have expected such a reaction and enjoyed answering me back in kind. Indeed, it would have been regarded as patronizing of me not to have him out. Not in Houston. Here he first looked downcast and then smiled inanely, as though I were an old-time southern plantation owner and he a slave, meekly receiving a dressing-down. I felt contrite—not a familiar emotion to New Yorkers.

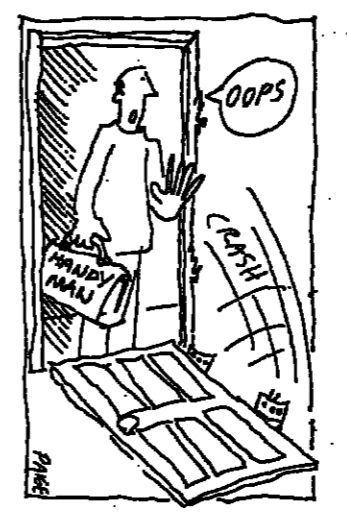
In the west they have air-

lines that never soil their wings by penetrating east of Chicago. Their aircraft tend to be decorated inside and out in psychedelic colours which do not inspire confidence. Their so-called stewards wear jazzy open-neck shirts and have a flip line in cabin announcements: "This plane is for Houston, El Paso, Phoenix and Los Angeles. If your travel plans today do not include any of these cities, this would be a good time to make yourself known and exit at the front."

Their ground staff are equally proud and immune to panic. I arrived at the airport two minutes before my aircraft was going to leave, not thinking for a moment that I had a chance of catching it. "We'll have a try," said the clerk, issuing my ticket and sending me bounding to the departure gate.

The aircraft was just coming from the gate as I arrived, and I had to wait for the next one. It was patently my fault, and in New York nobody would have been slow to tell me so. But in Texas they apologized, as though they were to blame.

It just depends on what you are used to. I meet people in the west and south who have never been to New York, and have no wish to visit the noisy, crowded, crime-ridden city, thank you very much. On the plane from Houston I sat next to a young construction



engineer who came into that category.

I lived in Midland, a small and bleak town, and had been to Houston to visit his parents. Even Houston, he found, was too big for him, too many people. "I like it here," he told me, gesturing at the window as we approached his destination. He pointed to the brown, dry-as-dust, windswept fields, each containing a squat little oil well, endlessly pumping. There was no sign of sustained human settlement.

Everyone has his own version of paradise, and it was as

From Mr Anthony Whalley
Sir, It would, as you say, be most
unseemly to dig for oil at Windsor
Castle (your report on September
21). However, there are sites in the
vicinity whose owners would, I am
sure, be prepared to tolerate the
unsightly inconvenience of oil ex-
traction operations in exchange for
some suitable pecuniary reward.
For example, I myself have a back
garden.
Yours faithfully,
ANTHONY WHALLEY,
27 Clarence Road,
Windsor,
Berkshire.

THE TIMES

BUSINESS NEWS

LAING

 LOCAL
OR NATIONAL
CONSTRUCTION SERVICE

Depressed Wall St puts blame on Washington

American share prices continue to fall, and the Dow Jones industrial share average is now at its lowest level in 21 months.

The outlook for the stock market in the near future looks bleak, and not just because of continuing uncertainties about the future course of inflation, the mounting fears of tighter monetary policies and the expectation of slower economic growth over the next 18 months.

Mr William Batten, chairman of the New York Stock Exchange, last week outlined some of the other causes of concern that are weakening stock market confidence. He said that Americans were anxious as they see a new national Administration going through all the uncertainties, exuberances and frustrations of getting organized—as any new Administration must—and finding its own philosophy and directions.

On this particular point there were a number of brokers who at the end of last week were willing to be specific. They noted that the resignation of Mr Bert Lance as Director of the Office of Management and Budget had left the business community without an effective spokesman in the highest echelons of the Administration.

Mr Michael Blumenthal, Secretary of the Treasury, appeared to be taking a particularly long time about getting himself organized. So far his impact on economic policy appeared to be negligible.

Mr Batten went on to stress that the Carter Administration appeared to have been in too much of a hurry to make important policy changes, such as those concerning energy, taxes and social welfare, and that "this has led some observers to suggest that too much is being attempted too quickly, and that a better ordering of priorities is needed to clear away some of the confusion."

He said market uncertainties had been increased by speculation over tax reform, and there were fears that once again the Administration would fail to amend sufficiently with the "continuing unrealistic tax treatment of capital gains and dividend income."

A factor highlighted by Mr Batten, but given relatively little general attention in the press, is the technical change that now faces American securities markets. He claimed that a "potentially devastating impediment to public participation in the stock market is inherent in the approach of the Securities and Exchange Commission to the development of a new market structure."

He is alarmed by the SEC's determination to eliminate "off-board trading rules" on January 1, even though a new national market system will not be ready. He believes this will produce turmoil in the brokerage industry and may mean the end of organized stock exchanges in this country.

Frank Vogt

When Mr Carter dropped in for an hour, page 17

White Paper will stress flexible pricing policies for state sector

 By Melvyn Westlake
A policy combining the principles of effective financial targets with flexible arrangements tailored to suit individual industries, will be contained in the first government White Paper on the nationalized industries for a decade.

It will probably be published before the end of the year, broadly endorsing the philosophy of commercial pricing and financial objectives laid out in the 1967 White Paper, while recognizing the wide diversity that exists among public-sector enterprises.

But it seems likely that the Government will reject some key proposals put forward last year in a special study of the nationalized industries undertaken by the National Economic Development Office. Among the most controversial was the establishment of permanent policy councils, chaired by independent presidents, for each public-sector industry.

The Government remains convinced that the 1967 White Paper, with its emphasis on commercial criteria, remains the right approach. But it accords that detailed pricing policy might be left to the industries themselves. It is envisaged that targets for public-sector enterprises would be broadly expressed in the form of a return on net assets.

These medium-term targets, set for a period of three to five years, are seen as complementing the limits on the industries' borrowing and grants. As soon as possible such targets would be put on an inflation-adjusted basis, using whatever inflation accounting standards are finally agreed by the accounting profession.

Ministers believe that the new approach, which was laid out in the 1967 White Paper, appears to have failed in the policy, adopted by the last Conservative government, of holding down nationalized industry prices as part of the counter-inflation programme. This policy has been abandoned in favour of a steady move back to commercial pricing.

But as a result of that government's policy, the gas and electricity industries and the Post Office, which has been

Economists' prescription for healthier industry

By Caroline Atkinson

 The Government should resist the temptation to interfere directly in industry and should concentrate on improving the business environment, if its industrial policy is to be successful, a number of well-known academic economists argue in an article published today in the *Midland Bank Review*.

Sir Alec Cairncross, a former chief economic adviser to the Government, is one of the three authors of the article, which arises out of discussions among a group of 14 economists.

After documenting the United Kingdom's dismal record for growth and productivity, the authors conclude that the over-anxiety of governments to boost industry's performance "has been essentially counter-productive."

Government cannot do management's job for it. As the real problems of British industry arise in individual plants and factories where decisions are taken, an official policy based on a micro approach is doomed to failure.

The Government should do what it can to provide industry with a stable and encouraging economic environment. Steadily expanding markets, stable prices, satisfactory industrial relations and a business atmosphere congenial to industrial innovation are essential ingredients of a successful industrial policy.

Of course, it is not so easy to prescribe policies which will achieve this. Government scope for action is decidedly limited, but the authors point to some areas where policy could be improved, with the general aim of fostering competition and reducing inefficiency.

First, they believe that price control is justifiable only as a cosmetic addition to incomes policy. Even if total gross trading profits were completely wiped out by price control, inflation would be reduced by only about one per cent a year in the next five years.

In the authors' view direct control of prices will counter inflation only through its indirect effect on wages, and it has a potentially dangerous effect on the efficiency of industry.

Secondly, the authors recommend more rigorous scrutiny of mergers and a general shift of policy away from encouraging industrial concentration and towards helping small businesses.

Government regulation of industry is a drain on the resources of many companies and should be rationalized, they say. Better education for managers and workers could also be provided.

The writers believe the Government should expand demand generally to reduce unemployment, its work ration schemes tackle the problem at the wrong end.

"Midland Bank Review (Autumn 1977) 'The regeneration of manufacturing industry'." Sir Alec Cairncross, John L. J. and Aubrey Silbertson.

NUM amendments threaten Coal Board experiment in democracy

Pit managers fight 'worker control'

By Paul Routledge

Moves towards industrial democracy in the coal industry have run into serious opposition from colliery managers, who have rejected to hand over their statutory responsibility to "workers' control" by the National Union of Miscellaneous Workers.

The British Association of Colliery Management is refusing to take part in further talks on worker participation unless miners' leaders drop changes they propose to a plan for colliery policy committees prepared by the National Coal Board.

Mr George Tyler, general secretary of the management association, said last night: "We are in favour of worker participation. What they want is workers' control. We will not tolerate that."

The deep division of opinion has been deferred to a meeting in about six weeks' time of the industry's joint policy advisory committee; but present indications suggest that the gap between the miners and their managers cannot be bridged.

The Coal Board has set up a scheme for policy committees that states: "The interests of the nation, the coalmining industry and those who work in it require that colliery workers and the unions which represent them shall have an effective voice in the direction of the mine."

Colliery policy committees are suggested as a means of joint decision-making and consultation. They would have 14 members divided thus: Six from the NUM; two from the government's union, Nacods; one from BACM and five appointed by the Coal Board, one of them the colliery manager, who would act as chairman.

The committee would be responsible for carrying out a "colliery action plan" covering the working of faces, operation methods and manpower allocation. They would also have consultative and communications functions, and pitmen elected to these bodies would be paid normal wages.

Colliery managers have examined these proposals, and while they did not arouse any great enthusiasm, BACM was prepared to give the scheme a trial run. But the miners have tabled amendments to the plan that would give the committees further powers over choice of machinery and plant, budgeting and marketing of colliery output.

They also want the procedure changed in their favour so that they would have the eight members on a 16-man committee; the vice-chairman would be a trade union nominee, and voting rearranged as a show of hands with the chairman having a casting vote.

The NUM further wants the right to call meetings of the policy committee at any time at the request of two of its nominees.

Mr Tyler said last night: "The effect of these amendments would be to transfer decision-making from management to the committee. They are designed not only to increase representation of the NUM but to establish worker control at colliery level rather than worker participation."

"Our basic concept of the function of management is that they have the statutory obligation and the duty to manage those obligations and duties cannot be transferred to committees, the membership of which includes a majority of laymen who have neither the qualifications nor the experience to carry out those duties."

BACM has set aside its earlier refusal to talk about worker participation unless the miners withdraw their amendments, but their basic policy objections remain and will be revived when all sides meet to discuss the issue again on November 5.

Without the cooperation of the colliery managers' union, which has irrevocably just affiliated to the TUC, the experiment in industrial democracy in the pits could not go ahead.

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Guidelines this week on inflation accounting

By Nicholas Hirst

Interim guidelines which will show how the results of major British companies quoted on the Stock Exchange have been affected by inflation are likely to be published this week.

A committee chaired by Mr William Hyde, chief accountant of Oxford University, will put its detailed proposals for implementation of the interim guidelines within annual accounts to the Accounting Standards Committee. These are intended to ease the transition between historic and full cost accounting.

The guidelines will concentrate on three adjustments to profit and loss accounts, but will not be concerned with presentation of balance sheets. It is expected that all major companies will be recommended to display the inflation adjusted figures in a prominent position within annual accounts, and it is hoped the Stock Exchange will ask all listed companies to comply.

In contrast to the complications of the Exposure Draft produced by a committee under the chairmanship of Mr Douglas Mawhood, a partner in Touche Ross, one of the big accountancy firms, which is still working on a full standard, the Hyde proposals have adopted the simplest solution wherever possible.

Adjustments for changes in the value of fixed assets and stocks will be worked out by using published indices, to which the value of the asset or stock is likely to be little affected either within the profession or industry itself.

The stance taken by the committee to show the effect of inflation on net debt or cash held by companies is likely to be more controversial, but it is hoped that companies will accept it as an interim measure.

Coincidentally, the report appears just as the Fed is tightening its credit policies once again.

The recommendation that the Fed should coordinate its policies more closely with those of the Administration will be greeted with horror. Such an idea will be viewed by the Fed as yet another attempt by the Congress to undermine its independence on monetary policy matters.

It is evident that the Fed could not possibly continue to remain an independent body if the committee's specific proposals are accepted by the Administration and the full Congress.

The committee advocated the establishment of procedures which compel the Fed and the Administration jointly to propose a fiscal-monetary programme each year, incorporating mutually agreed forecasts and targets, and plans for achieving the declared targets.

It did not believe that more

expansionary fiscal and monetary policies would necessarily accelerate inflation. The committee notes that the current slack in the economy should guard against this to some extent.

Also, it proposed that tax incentives should be designed to ensure restraint on wage and price increases. It suggested that employer payroll taxes be cut, with the resulting Social Security Fund deficit being offset by higher general energy taxes.

It also rejected the majority's conclusion that current monetary policies were "suffocating" the economy.

Brewers to defend tied house system

By Derek Harris

 Commercial Editor
A detailed defence of the brewing industry's structure, including the tied house system under which brewers own retail outlets, is expected to be made in evidence to be sent this week by the Brewers Society to Mr Hattersley, Secretary of State for Prices and Consumer Protection.

It emerges from an industry obviously both anxious and angry about what Mr Hattersley may do following the report on the brewers by the old Price Commission under Sir Arthur Cockfield.

Although the report found that beer prices and profit margins were not out of line with those of other industries, it was sharply critical of some brewers' practices, in particular questioning brewers' methods of assessing the investment and returns of their tied houses.

By next Friday Mr Hattersley will have before him the comments and suggestions of all interested parties on the report. He has said he is aiming at identifying the best means of tackling the problems the report referred to.

At the very least there is the likelihood that brewers will effectively freeze their prices at least until the end of the year unless driven to do otherwise by unexpectedly rising costs, so as to deflect as long as possible the threat of a Price Commission investigation of any individual price increase.

It is only if a brewer were to notify another price increase that the new government price control machinery, operative from last month, could—if the Price Commission thought justifiable—be brought into play to investigate a company and possibly freeze prices statutorily for at least four months and possibly for 12 months.

But there have already been rumblings from the industry about the criticisms of the tied house system, including warn-

ings that scrapping of the system could even destroy the institution of the English pub as it is now known.

Mr Derrick Holden-Brown, vice-chairman of Allied Breweries, has warned staff that the implication of the Price Commission report is that the industry should be dismembered, pubs severed from the brewers and even the breweries themselves broken up into smaller concerns.

If that happened, depots would have to be moved and some breweries would have to close down, affecting jobs. A price freeze, he added, would mean that investment would have to be cancelled.

Mr Neil Scourge, a senior analyst with Fieldings, Newton Smith, the stockbrokers, and a specialist on the industry, has concluded that for the smaller brewers loss of tied houses would be a serious threat involving an inevitable reduction in their numbers and therefore a loss of consumer choice.

For all the brewers it would mean the loss of a guaranteed market which enabled them to supply a varied range of products economically.

 Mr Scourge, who was writing in the weekend edition of the *Courage* brewery group's staff newspaper, points out that the Price Commission found that free house prices were generally 1p to 2p a pint higher than in tied houses.

Furniture complaints: Final negotiations are under way for a voluntary code of conduct for furniture manufacturers and retailers, particularly aimed at improving complaints procedures and tackling often-criticized delivery days.

The Office of Fair Trading which is negotiating with a committee set up to represent all sides of the industry, is expected to settle details still outstanding to allow the code to be brought in by about the end of the year.

Green Shield sights on franchises at big stores

By Our Commercial Editor

Green Shield is planning a new drive to secure more major trading stamps franchises to try to close a 57m-a-year revenue gap left by the 700 dropped by Tesco.

The first targets are the leading department stores, said Mr Tom McAuliffe, who in the management shake-up announced last week was made chief executive and joint managing director of the stamps operation.

An attempt is also being made to sign up a big grocery chain because, although many additional franchises have been taken on since the Tesco move, the amount of business they represent has fallen significantly short of replacing the volume generated by Tesco.

Green Shield's turnover is expected to be £70m this year, a drop of 10 per cent.

Funds continued flowing into National Savings at a high level in August, new net savings totalling £121.6m. Although recorded lower than the £249.5m recorded in July, the figure is considered encouraging for a holiday month and is nearly three times larger than the figure for August 1976.

While the £50,000 limit placed on National Savings investment accounts in the second half of July has considerably reduced this form of savings, it reached a peak monthly figure of £205.8m in July—it still represented nearly three-quarters of the August inflow at £289.4m.

He is alarmed by the SEC's determination to eliminate "off-board trading rules" on January 1, even though a new national market system will not be ready. He believes this will produce turmoil in the brokerage industry and may mean the end of organized stock exchanges in this country.

A factor highlighted by Mr Batten, but given relatively little general attention in the press, is the technical change that now faces American securities markets. He claimed that a "potentially devastating impediment to public participation in the stock market is inherent in the approach of the Securities and Exchange Commission to the development of a new market structure."

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Mr Healey elected to IMF kingmaker role

From Our US Economics Correspondent

 Washington, Sept 25
Mr Healey, Chancellor of the Exchequer, has been elected chairman of the interim ministerial committee of the International Monetary Fund. The position is one of major importance, with a decision in the next few days likely to be the next step in the IMF's reorganisation.

Mr Healey finds himself in the role of "kingmaker" in determining who will succeed Dr Johannes Witteveen in that post next year. Finance ministers meeting here hope a successor can be agreed upon by the end of the month.

It will be a more difficult task than in the past as there are indications that a determined effort will be made by the developing countries to ensure that a "third world" leader gets the job.

The top permanent position at the IMF has traditionally gone to a European and EEC finance ministers have informally agreed to make every effort to ensure that this happens again.

MANAGEMENT

Edited by Rodney Cowton

When Mr Carter dropped in just for an hour

The workers, managers and union representatives who shook hands with Jimmy Carter in the Wear Glass Works a few months ago are only just beginning to wash their hands again. "We wanted", said Sean Waring, deputy group managing director of Corning Glass, who was host for the day, "to preserve the feel of that occasion as long as possible."

"It was more than just the visit of a VIP. It was an emotional experience for everyone. You can plan for a lot, but you can't plan for that." The planning, however, was pretty comprehensive. It took into account, for example, the possibility of a nuclear attack on the United States while the President was watching the ancient craft of glass blowing in Sunderland. Six hotline telephones were installed in the factory along the route of the President's walk, so that he would never be more than about 45 seconds from a direct line to the Pentagon.

Any management envious of the spotlight that is thrown on a company that acts as host to a United States President ought to bear in mind the preparation that goes into such a visit. "We had only about 14 days' notice", Mr Waring explained, "but luckily we were able to lean heavily on Ed Myers, a public relations man who came over from Corning Group HQ in New York, and on Neil Jamieson, our adviser in London."

Mr Jamieson is also PR adviser to the Liberal Party and has experience of organizing companies to receive visits from British royalty. "Arrangements for those visits", he said, "pale into insignificance compared with the demands of a Presidential visit."

For a start, all 3,500 members of the factory management

and workforce had to be screened in advance. During the whole fortnight leading up to Mr Carter's arrival, the plant was awash with American secret service men and British secret police. Mr Callaghan, the Prime Minister, was bringing Mr Carter to the North-east, but it appeared to be the safety of the President that occasioned most concern.

Mr Jamieson said that a big problem was the reconciliation of the conflicting objectives of the White House press officials on the one hand and the security units on the other. "The White House and the British COI were determined to achieve maximum exposure of the President and worked with us to arrange for him to meet as many people as possible. However, the bodyguards were anxious to reduce his exposure to a minimum."

"If we had agreed to the security recommendations in toto, then no one would have seen very much of Mr Carter at all."

The compromise was to go over the route inside the factory, yard by yard, and agree where selected people would be allowed to stand to see the President at close quarters, as he passed. Different coded badges were issued so that the security men could see at a glance how close to Mr Carter the wearers of the badges were permitted to approach.

An "S" signified that the wearers of the badges were permitted to walk right up to him without the bodyguards moving in.

The actual movements of the President were paced out in advance to check how much he might be expected to backtrack, so that space could be allotted to prevent people piling up behind him.

The Wear Glass Works was selected not so much for its



President Carter on his Wear Glass Works walk-about.

modern machinery as for its traditional craft, carried out near the very centre of the city of Sunderland. Millions of pounds are being spent to upgrade facilities there in order to avoid "gutting" the area and moving jobs away to a distant site. The factory is full of nooks and crannies and in the middle of a score of derelict houses.

Sunderland Corporation men demolished many of the houses overnight, levelling the ground and covering it with a smart layer of asphalt. This provided space in front of the factory for television cameras and groups of old-age pensioners and schoolchildren—and created a vital clear view of the factory from the security men.

Each car in the cavalcade had to sweep up to the main entrance alone and then retire to a safe distance so that surveillance of the scene was never interrupted. Armed men with binoculars had to be found strategic viewpoints on surrounding roofs outside the plant and on sites within it.

Security was one headache. Communications were another. The management was expecting to cover the factory from top to toe with a new coat of paint,

but then found that it had to cater for an off-the-cuff press centre to accommodate the needs of an expected 100 international news and television people.

Besides the BBC and ITV and all the British national press and the local press there were the four main American television networks clamouring for privileges. "There was even a Romanian press man with his special requirements", Mr Jamieson recalled.

Five areas for press observation were mapped out for the "static" press. "Mobile" press were those privileged to move round, following the President.

During the hectic days of preparation television and film camera crews had to be looked after as they shot footage throughout the factory as background material for use in documentary programmes.

Sixty members of the factory labour force and management were picked to shake hands with the President at different points along his tour.

The short notice did not allow for any advance budgeting to cover the cost of preparation for Mr Carter's visit. However, Mr Waring estimates that

the actual direct costs, on items such as press releases, photographers and sundries, was about £30,000.

Management time was not included as an expenditure. This was freely given in whatever volume was needed to make the occasion a success.

In spite of the myriad distractions going on all round the factory the Corning management had to keep production going. Pyrex dishes were stamped out; precision watch glasses were formed and technical laboratory work was "blown" as secret policemen took up positions and talked to each other by radio.

The results of such a visit depend upon the attitude taken by workers and management. Corning appreciated the gesture of the President and the Prime Minister making the journey to the North-east from their summit talks in London. The factory basked in the glory of world-wide recognition on the day.

"Jimmy Carter was only here for one hour", Mr Waring said, "but it was a unique experience, absolutely worthwhile."

Sydney Paulden

British Steel reshapes its commercial strategy

The financial roller coaster of the British Steel Corporation continues on the downward gradient. After three years of slack demand there is still no sign of the upward turn and following last year's near £100m loss the corporation is still reconciling itself to the possibility of an even larger deficit this year—possibly as high as £250m.

It is against this background that the corporation's chair-

man, Sir Charles Villiers, announced top level management changes at the weekend—almost at the year since he took over from Sir Monty Finniston—which are clearly designed to have a fundamental impact particularly in relation to commercial matters.

Former diplomat, David Waterstone, who has had the unenviable job of running the BSC's commercial affairs for the

past five years, has been moved to run the corporation's chemicals and North Sea interests, with the previous managing director of personnel and social policy, Gordon Sambrook, being brought into run the commercial section.

Sir Charles has been expected to announce changes in the direction of the BSC's commercial activities for some time and the appointment of Mr Sambrook, who has had a

long career in the steel industry, provides an interesting insight into the attempts to make the corporation more conscious of the requirements of its customers.

Poor delivery and poor quality performance have led to many complaints from customers and a trend by major customers—like the motor industry—to obtain their steel supplies from overseas.

Shortly a select committee of

MPs which has been investigating the affairs of the corporation will publish their findings based on an inquiry lasting 18 months.

The board is increasingly delegating responsibility to divisions and works levels where the real improvements can be made. This policy appears to be having some success.

Peter Hill

LETTERS TO THE EDITOR

Learning to overcome the problems of paperwork

From Mr Trevor Bentley

Sir, Your special report on "Productivity in the office" is, I believe, an unfortunate and inaccurate commentary on the tide of paperwork which is engulfing Britain today.

For a start only those offices that earn revenue such as banking, insurance, shipping, and the like, can be considered as a source of productivity. Such offices should be clearly separated from those which support production activities, but which are not themselves productive.

Your headline "Ways to increase output from the desk worker" produces a vision of even more paperwork being produced. What we need to do is to increase office efficiency and eliminate unnecessary paperwork, not provide office workers with machines for increasing their already unmanageable output.

Photocopiers, computers, word processing and self-correcting typewriters are all developments which have added fuel to the paperwork explosion. Unlike automation in the factory, which reduces manpower, automation in the office has vastly increased the manpower needed to manage the deluge of unnecessary paper.

You comment on the need to reduce the number of office workers as if miraculously they can find employment in a pro-

ductive capacity. All they will do is to move to other offices or more realistically be found more work of a different kind in their present company. The tide towards non-productive employment can't be turned back by office automation. It must start at the grass roots of our education system where a child's mental ability is still recognized as the important road to future prosperity.

The child with practical ability is even today looked down upon. If we continue to educate and reward people for being non-productive, then the time will come, if it hasn't already arrived, when the output of the real worker will be insufficient to support the burden of paperworkers and our standard of living will be eroded.

The only answer lies in a realistic approach to the development of industries to reduce the level of imports so that we can become a prosperous trading nation once more rather than a nation of paperworkers.

Yours faithfully, TREVOR J. BENTLEY, Management Services Manager, O and M Department, Tilling Construction Services Limited, The Glens, Off Parliament Street, Harrogate HG1 2RF, North Yorkshire, September 19.

Adjustments to PO sub-post office network

From Mr C. H. Briscoe

Sir, It is not the case as John Lyon claims (September 21) that the Post Office has embarked on a scheme to reduce substantially the numbers of its sub-post offices.

The Post Office is as concerned as ever to maintain an excellent service rendered by its sub-postmasters and is no doubt that the sub-post office system is of substantial benefit to customers and should be maintained.

But as life styles change, populations shift and social generally alters with the passage of time, so the sub-post office system has to adjust to meet these changing needs of our customers. Such adjustments have been taking place continuously over the years and are not new. The story is wholly of closures, we have opened new offices, too.

The approximate standard which we are working to is that Post Offices should be no more than a mile apart in towns and two miles apart elsewhere—standard of provision which compares very favourably with most other developed countries. But our approach is flexible.

Before closing an office, look for instance, at seriousness of the effect: pensioners, people drawn family allowances, the proximity of bus main, the risk of arduous journey over difficult terrain.

In the end it is a question of balancing the residual needs of the community on the one hand and the cost of maintaining those needs on the other.

There are three other offices within a mile of Long Thigh sub-office, which is to be closed, one little more than 3 yards away. The reasons for the closure are, believe it or not, being adequately provided for.

Yours faithfully, C. H. BRISCOE, Operations Department, Postal Headquarters, St Martin's-le-Grand, London EC1A 1HQ, September 21.

Electricity from windmills

From Mr Bruce Adkins

Sir, On August 31 you carried a report (subsequently referred to in a letter on September 9) of electricity "being fed to the national grid" from a wind-driven generator. Your report pointed out that the windmill was providing 20 kilowatts of electricity "whenever enough wind blows".

Today's medium-sized power stations produce at least 300 megawatts of electricity, that is ten thousand times your windmill "halfway up a 50ft tower" (incidentally, why only half way up?). Big mode n stations (oil, coal or nuclear) produce of the order of 1,000 megawatts.

To equal one such station, you would need more than thirty thousand windmill generators of the sort described which, to avoid mutual aerodynamic interference, would be spaced at intervals of 400 square miles, all of which so situated as to benefit from a constant breeze.

What would the environmentalists—or the farmers—have to say to that?

Yours faithfully, BRUCE M. ADKINS, 13 Avenue du Panorama, 91190 Gif-sur-Yvette, France, September 16.

De-rating inner city areas to attract employers

From Mr Roland Freeman

Sir, Mr C. A. Prendergast, chairman of the Location of Offices Bureau, is right to emphasize (September 21) the crucial importance of high costs in the central area and especially the severe burden of industrial and commercial rates, as "the motivating factor for most relocation decisions".

I have recently advocated the de-rating of inner city areas by

amounts up to 75 per cent where necessary, the lost revenue being reimbursed to the local authorities concerned by the Government. This idea got a somewhat dusty answer at County Hall, but I am certain that an immediate financial injection is essential to arrest the rapid decline in employment opportunities in the inner cities of England.

Ranking, because it is a tax that can be related to specific

areas, is an ideal instrument for this purpose, bringing in effective relief than either Prendergast's well-intentioned exhortations or Mr Cuthbert's rather very long-winded arguments.

Yours faithfully, ROLAND FREEMAN, GLC member for Finchley Members' Lobby, The County Hall, London SE1 7PB, September 22.

SOUTHSIDE VICTORIA

Southside, Victoria is probably the most impressive new office building at present available in the United Kingdom.

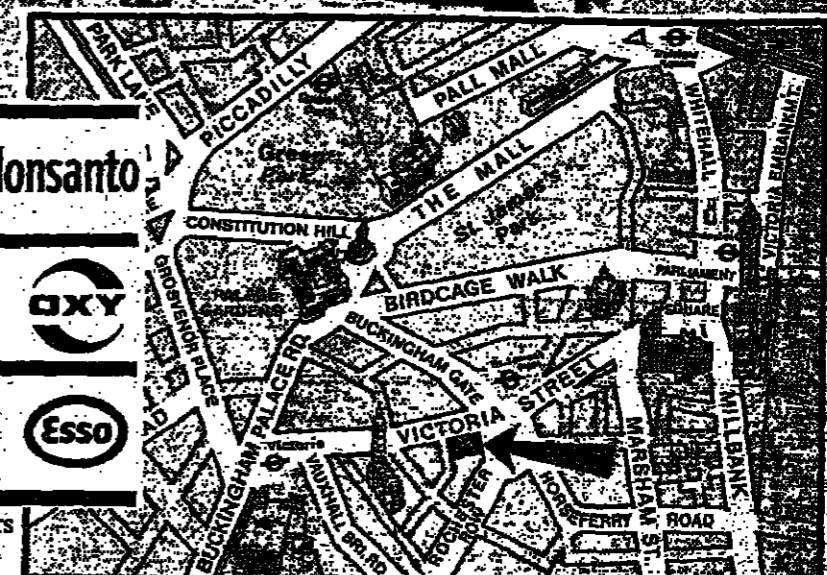
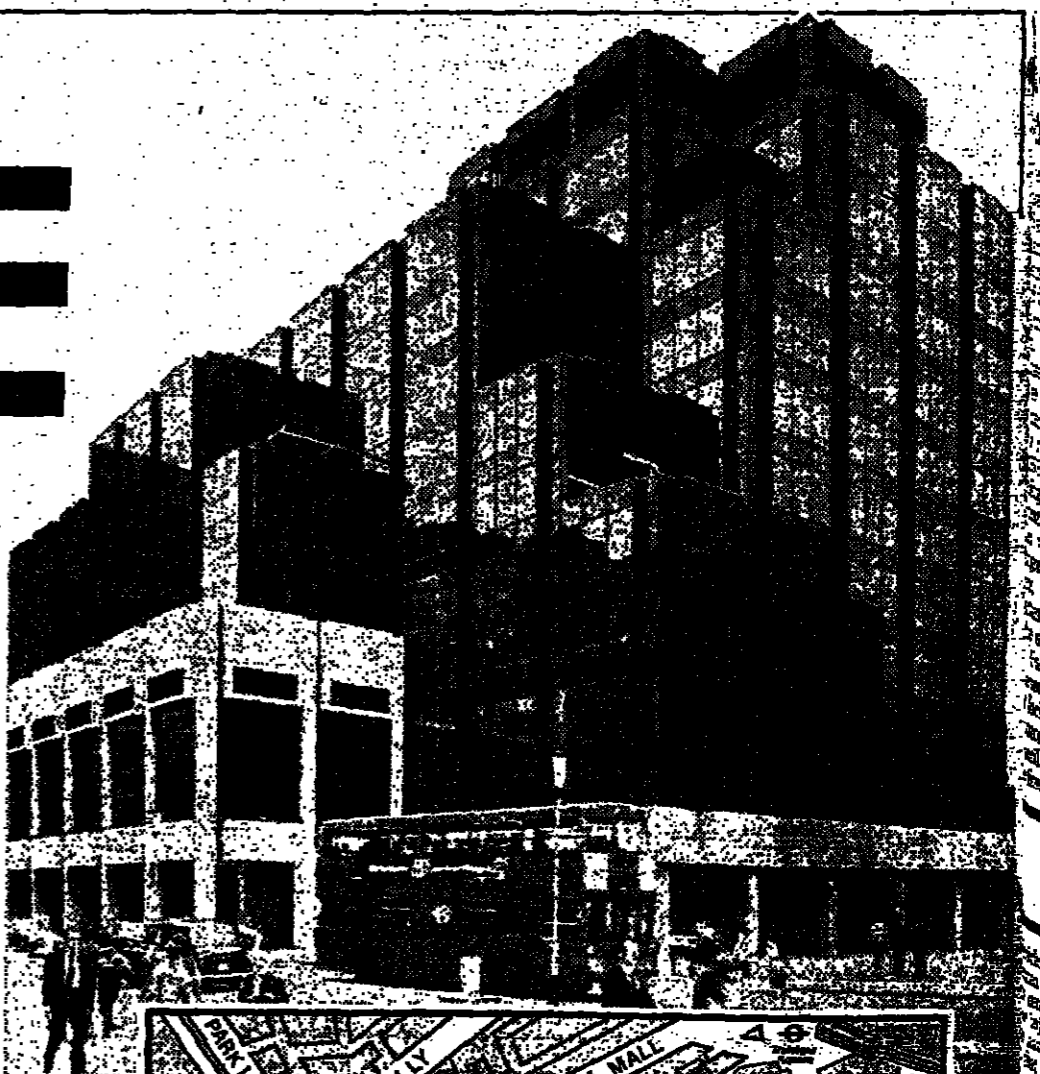
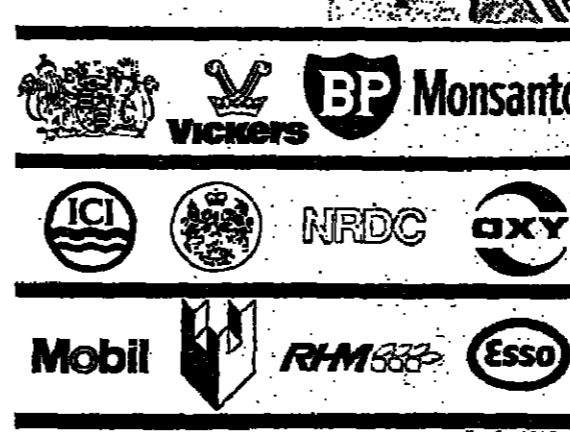
The design concept incorporates an unusually high standard of specification and perhaps, more importantly, provides approximately 140,000 sq. ft. net effective floor space. Fully air-conditioned and carpeted in units/floors from approximately 21,000 sq. ft.

As the final stage in the redevelopment of the southern side of Victoria Street, it is in the centre of an area which supports a large and well-

AN IDEAL BUILDING IN AN IDEAL LOCATION

established business community and which therefore has very fine facilities for shopping, for recreation, and above all for communications. Unlike many of its contemporaries, Southside, Victoria is much more than mere square feet. It is the ideal building in the ideal location.

Richard Ellis, Chartered Surveyors
6-10 Bruton Street, London W1X 8DU. Tel: 01-499 7151.
City of London, Scotland, Belgium, France, Holland, West Germany, Spain, South Africa, Australia, Canada, Singapore, United States of America.



Victoria—the ideal location

Richard Ellis

BY THE FINANCIAL EDITOR

Small is fashionable once again

The City is not usually slow to catch on to a fashionable idea. But it has perhaps been slower than some to latch on to the concept of "small is beautiful". It is now catching up fast. The evidence presented to the Wilson Committee shows that while few industrialists and financiers believe there is an overall shortage of finance for industry, many of them believe there may be a shortage in the case of small companies.

The Department of Industry thought this when it pointed out that the problems of raising equity of below £50,000 or £75,000; it was the conclusion of the CBI which isolated the question of loan finance; the Accepting Houses Committee and the Stock Exchange both singled out small companies. Even the clearing banks, criticised for their treatment of small companies by the Bolton Committee some years ago, called for a review of the machinery for providing equity or long-term funds for smaller businesses, and developed the thesis of the "proportionality gap".

In November the Wilson Committee hopes to outline the evidence it has received so far. If it decides to comment at all, it is likely to focus its attention on the relatively non-partisan issue of small companies. Around the same time Mr Harold Lever, reporting separately on what measures he thinks should be taken to help small business, the CBI and the London Chamber of Commerce, meanwhile, have set in motion their own new initiatives to help small businesses.

And, of course, it is not only in the industrial arena that "small" has suddenly become fashionable. The Stock Exchange and a number of prominent banking firms have been making valiant efforts to roll back the tide of history by providing a more sympathetic service for the diminishing corps of small investors. Some leading institutions, which have been showing less and less interest in recent years in managing portfolios of tiny equity holdings in a wide range of small companies, have been setting up internal departments designed to concentrate specifically on such investments. In one sense they may be stimulating the small investor.

This revived interest in small businesses shows all the symptoms of becoming one of those politically motivated bandwagons that has acquired an unstoppable momentum. Small companies might therefore look forward to pampered future of tax concessions and other public and private sector stimulants. Life may even become easier for small investors. What remains to be established, however, is how real the financing gap for small companies actually is.

Do the banks provide an unsatisfactory service? Is there a serious shortage of equity finance? Do the capital markets discriminate against the small business? Is the tax system more crippling for small than large companies? These are issues likely to be the subject of increasing debate over the coming months.

Brewers

Running out of growth

The 1977-78 period will undoubtedly be the year the brewers will want to forget. Two years of solid volume growth on the back of exceptional summers, continued restoration of profit margins, the larger success story and the tail-end of the tied estate revolution all appear to be coming to an end at one and the same time.

Brewery shares, however, still appear to be looking no farther than their nose, hoping that their yield attractions and the promise of a return to the old growth patterns in 1978-79 will tide them over a lacklustre trading period.

True, the next set of trading figures for the companies with September year-ends will still show growth of at least 15 per cent. The key here, though, is the way the brewers have managed to rush through price rises under the old code during the spring and summer. Following the critical Price Commission report on beer prices, the two sides are now locked in talks, which, whatever their outcome, will postpone any further rises until the new year.

At the same time, the steady volume gains

that the brewers had come to rely on have now gone by the board with sales over the summer down by 3-4 per cent. How much this was due to the poor weather and how



Mr Maxwell Joseph, chairman of Grand Metropolitan, owners of Courage and Truman.

much to consumer resistance to higher prices only time will tell. But, so far as the brewers are concerned, the crucial factor is that larger has been the chief casualty.

For Whitbread and Allied Breweries, the squeeze on margins will make it all the more difficult to finance their ambitious capital spending plans and rights issue talk would be a brake on their shares. Scottish and Newcastle and Arthur Guinness are already showing a marked slowdown in profitability, while even Bass Charrington would feel the draught if larger sales really start to flatten out.

Investment trusts

Wanted: initiative from shareholders

After yet another abysmal share price performance over the first eight months of this year, investment trusts, as I pointed out last Friday, have suddenly found a new lease of life. What sparked this off? Quite simply, the fact that towards the end of last month the yield on investment trusts and the market as a whole were almost level-pegging at around 5.2 per cent, theoretically a nonsense situation for a geared investment medium.

Hence, over the past four weeks, the 17.1 per cent rise in investment trust prices to leave the sector on a yield basis of 4.4 per cent against 5.1 per cent for the FT 100 Share Index.

That said, the problems of the investment trust sector are anything but over. On average, trust shares still stand at discounts of some 27 per cent to underlying net asset value, any faint hopes that a bull market would bring about a transformation of sentiment having proved unfounded.

In short, the sector still appears to be in need of considerably more rationalization than we have seen over the past 12 months. Brokers Laing & Cruickshank, in their recent investment trust annual, made sane enough suggestions—a 15-20 per cent cut in the size of the sector (mainly through outside takeovers) and further mergers to ensure that trusts, other than those that could sell themselves on grounds of specialization, were large and marketable enough to attract the institutional investor.

As far as external takeovers go, it may be that momentum could pick up if the £50m Edinburgh and Dundee trust is taken out smoothly. A great deal, however, clearly depends on how potential financial sector bidders feel about the status of their own paper at the moment, on how far ahead the larger pension funds see themselves committed to chasing yields on long gilts, and on how potential bidders view the future of overseas investment and the dollar premium/exchange controls.

As for mergers within the trust sector, these have been taking place, but hardly with any great sense of urgency. There is, of course, no particular reason why most trust managements should be in the slightest bit interested in altering the status quo. If the incentive lies anywhere it should be with the shareholders. Perhaps it is time for the more enterprising institutions who would like to make use of the close ended managed fund to band together and commission a study as to what they have to do to put investment trusts firmly back on their feet.

Mr Williams' price and profit juggling act

Hugh Stephenson

Mr Charles Williams, ex-merchant banker, and now head of the new Price Commission, might profitably have spent time going through the unpublished history of the old Prices and Incomes Board. For in this area, there is very little that is new.

The problems facing the revamped Price Commission are very similar to those which faced Mr Aubrey Jones last time round the circuit.

The central problem is quite simply this. In some areas of the economy, competition between producers and suppliers of goods or services is the best, and an effective, way of arranging the allocation of resources and of protecting the public interest.

If the market worked in all or the most important areas to maintain or increase such competition, there would be no need for Mr Williams, or for that matter for the Monopolies Commission, or Mr Hattersley or the rest of the real and stage army of the consumer movement. But there is no such

inbuilt bias in the market. Rather the reverse.

There are some total monopolies, like the nationalized public utilities and many more effective monopolies and near-monopolies and cartels from sugar and beer to banks and building societies. Without question, whole areas of the economy have become increasingly dominated by concerns which have expanded vertically or horizontally.

These developments may not necessarily operate against either the public good or the interest of the consumer. But, in the nature of things, there is every possibility that they may.

The three "investigations" announced at the end of last week—into certain of Barclays bank charges, Electricity Council domestic fuel bills, and Metal Box cans—show that Mr Williams has chosen to plunge in at the deep end. His practical and political problems are formidable.

First, his Price Commission has to establish that it is different from the one operated under earlier law by Sir Arthur Cockfield. The old Price Commission was concerned with administering a statutory price policy.

It had only to decide whether you were entitled to a price rise under the rules. It was not required to deal with questions of public interest or efficiency as such.

Secondly, his Price Commission has to show that it is different from the Monopolies Commission. It has to show that its observations and philosophy are rooted in finance and economics and not, like the Monopolies Commission, in law.

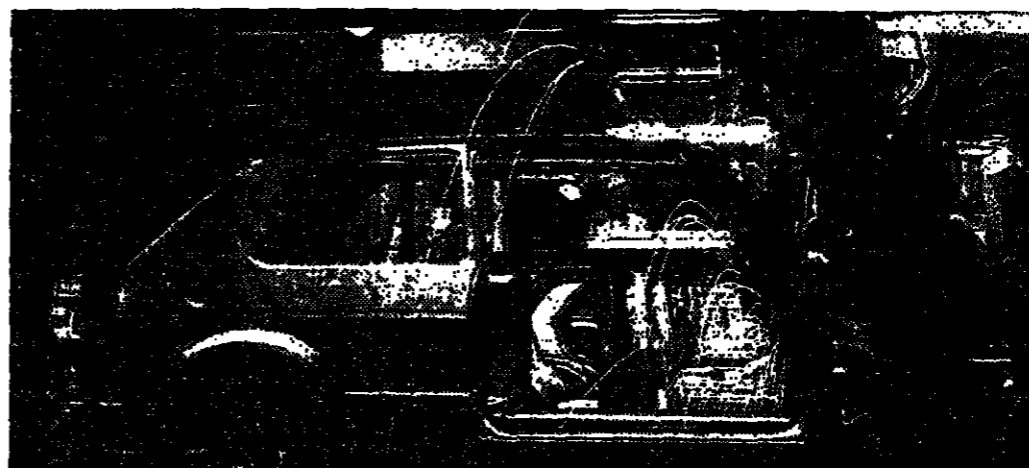
It has to operate quicker, because while the law may be able to wait for a decision, industry and commerce cannot. Yet it has to carry authority. And unlike the Monopolies Commission, which does not meet as a corporate body and tends to deal with the merits

of each case as the selected commissioners see them, the new Price Commission will have to develop a coherent framework for its decision.

Thirdly, given the fact that it is not administering a published code, it must find a narrow path between being ineffective and failing to get at the real core of industrial and commercial decisions and of appearing to be so arbitrary in its operation as to raise questions about natural justice as, for example, the Government is appearing to do over pay in relation to James Mackie and Sons in Belfast.

If Mr Williams can develop enough authority to enable us to get away from the present situation under which everyone, no matter how inefficient, who earns less than average profits is politically safe, and everyone who earns above average profits is prima facie a profiteer, he should earn the real gratitude of poachers and gamekeepers alike.

Can the cautious German car makers keep the competition out?



Volkswagen Golf shells on the automated welding line.

For the past year and a half West Germany's motor manufacturers have been riding a boom.

The industry led the country's economy out of recession in 1975. The unexpectedly strong revival in demand that year translated into record profits in 1976 and is expected in 1977 to push vehicle production above four million for the first time and bring home sales up to two and a half million units.

But the boom has not been the occasion for euphoria. Over the past 30 months, as orders and sales have moved steadily upwards, top executives of the big motor companies have lost no opportunity to temper satisfaction and self-congratulation with warnings about the future.

The appetite of the market—particularly that of the West German car buyer—has consistently exceeded the industry's forecasts and therefore its ability to deliver the goods. As a result, delivery delays have lengthened as the boom has progressed.

The picture is similar at the other mass producers—Opel and Ford. At Opel production is running at full capacity and Mr James Waters, the company's chief executive, says that he could sell more cars if only they could be produced. Production is so tight that Opel will not be able to put a new Commodore—the "up market" version of the Rekord saloon—on sale for a year, leaving a gap in its range.

Deliveries are also the subject of BMW and Daimler Benz. The popular newspaper *Bild Zeitung* reported the other day that a customer in Hamburg, when placing his order for a new Mercedes 280E saloon, had been told to expect delivery in the second quarter of 1978.

Although the motor industry became the driving force behind the now admittedly faltering recovery from recession of the German economy, it seems as if it never had the same optimism and faith in the future as its customers. New labour was hired, but only hesitatingly. Only by the end of this year will the industry's workforce have recovered to the level that applied before the slump of 1973-74.

Large-scale investment has been decided on, but after a

delay. It was only in the last 12 months that Daimler, Ford and Opel announced five-year investment programmes totalling 14,000m Deutsche marks.

Underlying the caution has been an acute—some might say exaggerated—awareness of the high cost of German labour in the automotive industry relative to other major producers.

This has been backed by a justifiable—but, as it turns out, premature—fear of competition from the Japanese.

But the roots of the German motor industry's failure to gain the maximum advantage from the surge in demand of the last two and a half years probably lie in the experience of the slump of 1973 and 1974.

The oil crisis, temporary speed limits and a short-lived ban on Sunday driving rudely interrupted the long-standing love affair between the German consumer and his car. Similar measures abroad hit German car exports.

The initial response of most companies was to maintain a high level of production, mainly because dismissing labour in the Federal Republic is an expensive and time-consuming business and is bad for a company's image. The hope was that demand would rise.

Instead, the stockpiles grew, forcing the mass producers in the industry one by one to slim down their production. Volkswagen was the last to act when it decided in April, 1975, to shed 25,000 of its domestic labour force. It later emerged that the company, which to many was a symbol of Germany's post-war industrial revival, had narrowly avoided what would have been a fatal liquidity crisis.

Against this gloomy background the Daimler Benz company stood out as a shining exception. Profits were barely dented in the recession year of 1974. The Daimler board, with its philosophy of not chasing the peaks of demand but main-

taining a steady increase in production even at the cost of longer delivery delays, seemed to have found the answer to the motor industry's problems.

Now the motor industry as a whole has adopted the Daimler philosophy. Although all five companies have increased their workforces since 1975, they have chosen to meet peak demand by running extra shifts.

Overtime working, it is argued, keeps the workforce down to a size that will withstand the coming decline in demand that is viewed as inevitable. Unlike additional hiring, overtime working does not carry such a heavy social security penalty for the companies. This is important, as nearly half the personnel costs incurred by German car firms are social payments made on behalf of the workforce.

The problem is that over the past two and a half years the peaks in demand have turned out to be the norm.

Germany's motor manufacturers came out of the recession with a battery of impressive arguments to justify their determination not to increase their staff on a pre-slump scale. Besides the high labour costs and the Japanese threat, it was believed that in the future car demand would grow at a slower pace than in the past. European markets, and particularly the domestic German market, were felt to be approaching saturation.

Demand for new cars would be largely a matter of replacing existing cars and therefore far more sensitive to cyclical ups and downs. Besides the Japanese, other low-cost producers were emerging or were likely to emerge. Cheaper producers from the Comecon countries, or places like South Korea, would with the Japanese cut into export markets and conceivably try to dump cars in Germany.

However, the durability of the boom must challenge some of these assumptions. The West German industry seems to have underestimated the attractions of the products that it had to offer. New car models helped to create demand. Even though unemployment in Germany has averaged about a million for the past three years and economic growth has failed to live up to expectations, the German public has bought new cars because it is the fashionable and apparently desirable thing to do.

Germany's motor manufacturers belong to a small group of industries (the others being the suppliers of jeans and hi-fi equipment) which have displayed an ability to make the average German spend and not save his surplus cash. Their success has taken the motor manufacturers by surprise.

What is surprising to an outsider is the apparent inability of car importers to cash in on the German industry's bottlenecks. Japanese producers, for example, have already proved to be decisive challengers to the German industry in the United States, where Volkswagen has little hope of ever catching up with the Japanese as the leading foreign car marque, despite the decision to begin assembly of the Golf in Pennsylvania next spring.

Nearer home, the Japanese have made impressive inroads into the British, Scandinavian and Benelux markets. In Germany, however, their combined market share is barely 2.5 per cent.

Between 1974 and the first half of this year the share of the West German market taken by foreign cars declined to 21.7 per cent from 27 per cent—a performance that contrasts astonishingly with the British experience, particularly when the cost disadvantage of German producers is taken into account.

Last night the doors closed on the Frankfurt International Motor Show. The number of people attending the exhibition exceeded all expectations. The approach roads blocked with traffic, the over-full car parks in the city and the crush around the stands gave as good an insight as any into what it is that makes the German product sell despite the delivery delays and relatively high cost.

But the enthusiasm did not spell over into the manufacturers' camp.

Instead there were the inevitable warnings of cost pressures ahead of this year's wage negotiations. It was suggested the boom in demand had been artificially stimulated because of the scheduled rise in value added tax to 12 per cent from 11 per cent at the beginning of next year.

Moreover, the Japanese manufacturers were strongly represented at the show and have reportedly set their sights on winning 7.5 per cent of the German market.

None of the German manufacturers forecast an abrupt switch from boom to slump next year. But the next 12 months should show whether the motor makers were right not to chase the demand peaks of the past two years.

Peter Norman

The future of the private company in Britain.

In this country, private firms employ six million people, generate some 20 per cent of the gross domestic product and account for more than 95 per cent of all business enterprises in the United Kingdom.

The future of the private company is currently in the forefront of national debate and ICFC has therefore arranged a one day non-profit making conference for the chairman and managing directors of private companies and their professional advisers.

Speakers include:

Mr. Gordon Richardson—Governor, Bank of England; Mr. John Methven—Director General, CBI; Professor Jim Ball—Principal, London School of Business; Mr. Hugh Parker—Senior Director, McKinsey & Co. Inc.

Date: Tuesday, October 25, 1977.
Venue: Queen Elizabeth Hall, South Bank, London SE1.
Fee: £45 plus VAT, inclusive of documentation, morning coffee, luncheon and afternoon tea.

ICFC

To: ICFC Conference, Conference Associates, 34 Stanford Road, London W8 5PZ (01-937 9214).

Please send me full programme details:—

Name _____
Company _____
Address _____

T.S.1

Business Diary in Europe: Bonn's growing pains

Dr Hans Friderichs, the outgoing West German Economics Minister, seems determined to end inside to the injury caused by his surprise announcement two weeks ago that he will be leaving the Economics Ministry. It was reported that Chancellor Helmut Schmidt had asked him to stay in office for a while to help the Government carry through its economic policy in the difficult period caused by the terrorist kidnapping of Hans-Martin Schleyer.

On Hans Friderichs' recent showing this must be a decision that Helmut Schmidt is learning to regret.

Such statements have hardly been music to the ears of Bonn Finance Minister Dr Hans Apel. He seems determined to defend Germany's growth record from critics at the annual meeting of the International Monetary Fund in Washington.

Apel swiftly denied that the Friderichs' 3 per cent growth forecast was an official Government target and Bonn's deputy spokesman, Dr Armin

Grünwald, has since put the likely rise in real pay in Germany this year at between 3.5 and 4 per cent.

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Delegates to the World Energy Conference in Istanbul, including a sizable portion of the 300-strong British contingent, got a taste of industrial relations Turkish style when the staff at the government-owned Mackia Hotel walked out on official strike midway through the meeting.

When it was obvious that the colourfully dressed pickets, garlanded with flowers from sympathizers, were not going to deter the intrepid conference goers, less-conventional tactics were employed. Loudspeakers were placed in the trees opposite the hotel and, from the very early hours of the morning

the guests were treated to loud Turkish and English pop songs interspersed with the occasional live performance by drummers and pipers—plus impassioned pleas to "go home".

But it was more than an interrupted sleep and a complete lack of services to force guests into the nearest empty hotel rooms—some twenty miles outside the city. In the end the management of the hotel, judging the mood of the strikers better than the visitors, shut down the establishment as it could no longer guarantee the safety of the guests.

American guests were promptly visited by their consul and offered accommodation at the consulate. A representative from the British consulate eventually arrived at the hotel and appeared very sympathetic to the plight of the stranded Britons. But he was unable to offer them refuge in the consulate building, leaving the Britons to find their own accommodation outside the city.

A truce has been declared between the Confederation of Italian Private Industry (Confindustria) and its subsidiary Organizations of Young Entrepreneurs, with the appointment of Diego Pelizza as Young Entrepreneurs' president. Confindustria vice-president, Pelizza owns a building firm in Ancona and is prominent in the National Association of Building Contractors.

His predecessor, Piero Pozzoli, also a builder, resigned after clashing with Guido Carli, Confindustria's president, over the

appointment of Giuseppe Medici, chairman of Montedison, to another of the vice-presidencies. Medici is a retired Christian Democrat politician who, according to Pozzoli, lacks industrial experience.

The big companies in Confindustria, he says, throw their weight about, and Carli, he alleges, is an autocrat, who is too interested in politicizing Confindustria.

The man who cleaned up London's air, Stanley Cohen, had some advice for Spaniards in the smoky northern city of Bilbao last week.

"Do something about pollution right away," he said. A member of the British delegation to a symposium in the Basque city on "The quality of life and the environment," at the University of Deusto, the energetic 80-year-old past chairman of the London Public Health Commission and past president of the National Society for Clean Air told Spaniards he thought it would cost about \$612m to clean up the air around Spain's big cities.

Britain, he said, spends about 2 per cent of its budget to fight pollution, Spain less than half of 1 per cent. "Bilbao represents a terrible health problem," he said.

Ray Blanton, governor of Tennessee, flew into London from Nashville at the weekend with an entourage of local business and industrial development top brass.

During the next fortnight they plan to develop business links between their state and Britain.

and the continent, particularly West Germany. The delegation's long-term plan is to diversify an economy that already ranges from country music to nuclear power.

Blanton goes to Bonn next weekend, representing his state's governors at a meeting of the American-Swiss Association. The Blanton team then gets down to business wooing the businessmen of Düsseldorf, Stuttgart and Frankfurt.

It was Blanton and his economic development commissioner, Tom Benson, that helped persuade the West German piston manufacturer Mahle to set up their first United States operation in Morrisstown.

Taxation is lower in neighbouring Alabama, but Mahle were pleased when some local families were sent over to Stuttgart and returned to teach German in Morrisstown.

Peking's "Gang of Four" may have been blamed for many things over the past few months, but it still comes as a surprise to hear that they are responsible for raising the cost of equipping the German bedroom. Apparently the communist revolutionary forces stirred up by Mao's widow have badly interrupted the export of feathers and down from the People's Republic of China. This is bad news in Germany where nearly 60 per cent of the population is thought to sleep under a feather quilt of some sort or another. In a country which has brought inflation down to 4 per cent, duvet prices have doubled since 1975 and are likely to keep on increasing.

Multi-million pound invasion Hastings is ready to welcome

If there is one thing everyone knows about Hastings it is 1066 and all that. So it was not surprising that when the East Sussex town recently showed off its multi-million pound development scheme, recently there was much stirring talk about a second battle of Hastings.

"This time we are preparing to welcome an invasion by industrialists in our fight to promote the major expansion of the town," one local government official explained.

But despite such brave exhortations, there is growing concern over the lack of commitment to the fight shown by Hastings' main ally, the Greater London Council, and its request to renegotiate the battle plans.

These were drawn up in 1971 when Hastings became the last of the GLC's "expanding towns". The town development scheme, as originally formulated, provided for the accommodation by 1985 of 15,000 people from the Greater London area.

It included the provision of some 5,800 houses, more than 100 acres of industrial and commercial development, two secondary schools, five primary schools, five local centres and about 300 acres of open space and playing fields.

Subsequent revisions amended the targets to 5,700 homes and not more than 15,000 people by 1981.

Six years after the scheme received approval about £12m has been spent by Hastings, the GLC and East Sussex County Council.

But only 400 homes have been built, of which about a tenth stand empty and about 500 new jobs created. Recent predictions suggest that it will be 1980/81 at the earliest before the target of 15,000 people is reached, and even these are regarded in some quarters as optimistic projections.

Target dates began receding three or four years ago as the economic recession hit Hastings' hopes of attracting footloose industry. There came the turnabout in policy by the Government and the GLC—instead of encouraging companies to move out of London to expanding towns they are trying to persuade industry to stay or come back.

There are fears, too, that Hastings has been downgraded in the list of priorities taken into account in the award of industrial development certificates.

The GLC—despite accusations of "cold shouldering" Hastings—says that it will not withdraw from the joint project unilaterally, that it is only seeking ways of mutually seeking or terminating its agreement.

Hastings and the county council are determined to press ahead and "intensify the battle". The development is a key element in creating a more balanced economy in the town and ensuring the area's future prosperity.

For Hastings, however, pleasant a place to live is an old town both historically and demographically. It has "heritage" but cannot boast the amenities enjoyed by some of its more prosperous coastal neighbours. And of its population of 75,000, 28 per cent are retired.

In the past, work prospects have been limited. Male unemployment is about 10 per cent. There has been a flow of young people from the town and a growth in the number of commuters travelling to London. Recently there have been fears that IFT (Consumer Products) UK, which, with a workforce of 1,100, is the largest private employer in the town, was planning a major cut in numbers. The company says that jobs will be lost, but will not specify how many. Local guessimates put it around the 100 mark.

Tourism, the traditional mainstay of the economy, is wobbly. An estimated 250,000 staying visitors, 1.5 million day trippers and 20,000 foreign students bring in about £10m a year, but in common with other British resorts, Hastings has found that the holiday summers are gone. Hotels have gone into receivership (advertising townspeople say that group, rather than local problems, were to blame).

Despite assertions to the contrary, Hastings is not well placed to attract the industry it seeks. Its two rail links to London, 62 miles away, take either 90 or 120 minutes, and although Hastings overlooks the Channel, the nearest port is more than 30 miles away. Improvements have been made, but road links are not fast.

What Hastings does have, especially, is a beautiful environment—rightly regarded locally as a strong selling point—into which the town development scheme should unobtrusively blend. The housing at Tinkleigh is delightfully situated and bold in design, while the Castleham employment area—one of three such areas planned—is, though functional, bright, open and well landscaped.

John Huxley

Industry in the regions

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John Huxley

FINANCIAL NEWS AND MARKET REPORTS

Filling a research gap in the Rowe & Pitman's armoury

The ever-increasing weight attached by brokers to quality research is perhaps never better illustrated than by the letter that Rowe & Pitman Hurst-Brown sent to all the City's institutions at the end of last week.

The letter set out the changes that the firm had made in its research department and attempted to demonstrate what Mr John Littlewood, who chairs the research team, describes as a quality change and not just a quantity change.

Mr Littlewood and Mr Kenneth McVie, who has been brought in from Charter Consolidated to direct the analysis on a day-to-day basis, now believe that the "raison d'être" of the merger of Rowe & Pitman and Reed Hurst-Brown in April, 1975 is being put into effect.

The merger put together two very different firms. Rowe & Pitman was and is one of the City's top placing brokers with



Mr John Littlewood, chairman of research and (right) Mr Kenneth McVie, director of research at Rowe and Pitman, Hurst-Brown.

Brokers' views

a yard-long list of corporate clients, thriving gilt-edged and money broking departments and widespread overseas interests.

Reed Hurst-Brown was very much smaller and its reputation was principally based on its research in the property and insurance sectors. In contrast, Rowe & Pitman, was well known in certain stocks, Plessey and GKN for example, but its work on sector analysis was almost non-existent.

It is difficult to say just how and when the firm decided to make this qualitative change but there was apparently no outside institutional pressure to upgrade or widen the scope of its analysis. Rather the feeling seems to have grown internally that there was a gap in the combined firm's armoury which needed to be filled.

To reflect the firm's "very much more ambitious" research, the first step was to pick the new sectors to analyse. In many ways, these were self-selective since they were influenced by the bias of Rowe & Pitman's corporate client list. So, with Shell as a major client, it was obvious that the firm would pick oil and for similar reasons, chemicals, engineering and many others were added to the research range.

The list was expanded so broadly that research now accurately reflects the firm's

general broking base. Excluded from the spread of analysis were investment trusts and banks mostly because there were no specific client links and "because both sectors were already well researched elsewhere".

The second step was to decide how the job was to be done. The view, Mr Littlewood decided, was management of the research effort. Mr McVie estimates that about 85 per cent of his workload is organizational, monitoring, editing and external liaison of a formal research effort.

Not a particularly novel approach perhaps but outside the well-trodden path of property and insurance work, in-depth studies represented a new departure which would require new staff.

The existing mix of age and experience, Messrs Littlewood and McVie agree, was right and more experienced researchers have been recruited which the firm believes will lead to more stability. The net increase in the analysis payroll is only two but they are convinced that "the flow of research and its quality are now very much higher".

The tangible benefits flowing from the new research effort are naturally difficult to isolate. The firm believes that its research has been improved yet the team has made no effort to cost itself to decide whether, in pure profit terms, the change has been worthwhile.

But, of course, any research partner will tell you that analysis cannot be switched off and on like a tap. Mr McVie believes that Rowe & Pitman is

in a stage of long-term planning and 1977 will be seen as a year of consolidation. "It may take about three or four years," he says, "to build up the type of operation we want".

Success, at the end of the day, will depend on getting it right and, equally important, telling the institutional investors how and why to the extent that he will deal confidently on Rowe & Pitman's advice.

The firm is now building up its data base, helped by the influx of experienced hands from other firms and is mounting a greater effort to see a broader range of specific company's operations.

On company visits, Mr McVie says, "we now want an overall look at the market in which the company operates and then means seeing the production and marketing people and not just the finance director as before".

The grasp of any company's affairs will lie fallow unless the institutional sales staff can grasp the message across. Employment of a salesman with a research background and an ability to absorb technical data is a decided trend in the broking fraternity although whether such employees should specialise by sector or by industry is a debatable point with committed advocates on either side.

Like many other firms, Rowe & Pitman uses a combined research and sales team for the gilt market and, in the case of insurance, strength in those sectors, property and insurance follows the same pattern. But Mr Littlewood is adamant that "there is a limit to the number of people an analyst can talk to

Ray Maughan

Gold shares move on to higher ground as bullion price improves

After reaching a new six-month high of \$151.60 on Thursday, the gold bullion price fell away slightly on Friday, but support for gold shares continued unabated.

With American sentiment leading the way prices on the London stock market reached new peaks for the year for the third consecutive session. Western Holdings for example moved on to \$23 (£17 ex-dividend) while Randminer reached \$41 (£30.25) and Free State Gold \$18.88 (£14).

Of course gold mining shares like the bullion price itself are still a very long way short of the sort of levels seen in 1974 but there is an underlying strength to the recent boom.

Since mid-May the gold share index has climbed 50 per cent but a fully three-fifths of that improvement has come through during the last fortnight—a period in which the actual bullion price has climbed only around 3 per cent.

Much of the United States enthusiasm may be put down to special factors—including perhaps the fadingness of

American investors—but it must be said that among United Kingdom dealers "bears" are virtually non-existent.

Reasons for the present strength are numerous but at the root lies the deteriorating position of the United States international liquidity. The free bullion price tends to move in inverse ratio to America's balance of payments and internal inflation and the current position is no exception.

At the same time American investors are prepared to look for any alternative to a badly performing Wall Street. Arab interest is increasing as Middle East tensions seem to ease on several currencies, while fears of heavy Russian sales are diminishing.

Is the scene then set for another major gold boom? Certainly some American investment advisers seem to be predicting a rise in the bullion price to \$180 or even \$200 in the near future.

United Kingdom dealers, however, are for the most part

less excited. For a start, they say, the United States economy is not that bad and unless inflation suddenly starts to get out of hand again the bullion price could be near its peak for some time yet.

Leading experts at James Capel, the stockbrokers, see more than a consolidation of the bullion price at around \$160 with a rise to \$180 perhaps \$165 by the end of the year.

Meanwhile gold shares are largely being catching up with the bullion price in recent weeks, though increased confidence in the strength of the South African regime has undoubtedly been a factor.

In this context it should be noted that experienced yield amounted to as much as 150 per cent in May. Even yields in the 10-12 per cent range abound; offering income attractions even compared at around 8 per cent.

Many dealers feel that long as the bullion price continues to move ahead to \$200-\$250 the level the share could be in for further rises between 15 and 20 per cent, however, which could be too narrow for United Kingdom investors given the dollar premium surrender rate.

Richard Allen

Ivory Coast at odds with cocoa council on buffer stock prices

Just as Bolivia is out of step with the other major tin producers regarding the International Tin Agreement, the Ivory Coast is quarrelling with other members of the International Cocoa Organisation (ICCO).

Following a decision taken by the council to raise the buffer stock price range from 39-55 United States cents per lb to 65-81 cents, the Ivory Coast, which has a 10 per cent share of the 75-91 cents, put a resolution to the ICCO calling for an immediate suspension of the 1975 international agreement and its renegotiation.

In announcing this, Mr Denis B. Kannon, the Ivory Coast Agriculture Minister, added the threat that the final results of its move before deciding whether more drastic measures should be taken.

He added that Cameroun, Gabon and Togo had supported the demand for a 75-91 cents price range and said that he hoped that consumer attitudes would not lead to a break-up of the pact.

However, it seems that the Ivory Coast's demands will have to wait until the council's next meeting, in March, 1978, for them to be considered. The resolution was put before the council and added to the agenda for the March meeting, but was not discussed.

Mr U. K. Hackman, executive director of the International Cocoa Organisation, has said that the price range increases will facilitate future negotiations to strengthen the agreement. It would be easier, he said, to build on existing foundations than to start from scratch.

He said that renegotiation of the 1975 pact—due to expire at the end of September, 1979—would begin next year and culminate in a full negotiating conference towards the end of 1978.

In the meantime the Ivory Coast is given for each market, including names of chief executives, contract particulars, hours of trading, rules and regulations and currencies dealt in. Names of trading members are listed separately.

There are production and consumption figures and price graphs for 11 major commodities and in each case a brief background covers their history, development and usage. Details are also given of the countries of origin of the bulk of raw materials, which countries are the major importers and existing agreements in these commodities.

The advantages and disadvantages of commodities for potential investors are explained. Articles by Brian Reddy, con-

Commodities

Coast can console itself with the thought that the council's price decision is unlikely to affect cocoa levels for the foreseeable future as the ICCO indicator price is standing at over 175 cents per lb.

When cocoa exporting countries met in London recently as members of the Cocoa Producers' Alliance, the Ivory Coast delegate, Mr Norbert Koussou, said the market was going through a difficult phase and he added that any new price range should be realistic.

A comprehensive guide

One of the most comprehensive books about commodities to be published so far is *Guide to World Commodity Markets* (Kogan Page, £12.50) which lists some 90 markets in 19 countries in Europe, North and South America, Asia and Africa.

Full details, where relevant, are given for each market, including names of chief executives, contract particulars, hours of trading, rules and regulations and currencies dealt in. Names of trading members are listed separately.

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The advantages and disadvantages of commodities for potential investors are explained. Articles by Brian Reddy, con-

stant editor, and J. Edwards, editorial adviser, to the background to the market and discuss their role and function, how they are produced and used, the role of the speculators, prospects for producer costs and the role of the market in reflecting world prices at trade.

There are 77 pages of appendices which include a directory of world time zones, conversion tables and an appendix of currencies.

Pacts as theme for metals forum

International commodity agreements and their impact on non-ferrous metals trading will be the theme of this year's American Metals Forum, which is to be held in London on October 1.

Mr J. E. J. Foster, chairman of the committee of the London Metal Exchange, will open the forum. The first speaker will be Mr Peter Lee, executive chairman of the International Tin Council. Mr Akira F. Sakai, president of Sumitomo Mining Company, will give the Japanese point of view and Mr Bernhard Rohde, chairman and chief executive of Industrias Penoles SA, will cover silver, lead and zinc.

The copper fabricators' point of view will be given by W. R. Mather, general manager of metal producers' BICC, and Mr David Philp, managing director of Roan Consolidated Mines, will speak for Zambian producers.

The international metal traders' reaction agreements will be explained by Mr Jean Vulliamy, president of Metal Traders' Inc. As a panel of four members of the committee of the LME will take questions on the metals traded on the LME.

Wallace Jackson

Commodities Editor

Business appointments

Top changes at Tarmac

Mr Alan Osborne, at present managing director of Tarmac's construction division, has also assumed overall responsibility for the company's international division. Mr Jack Codd, managing director of the international division, reports to Mr Osborne. Mr H. W. A. (BBI) Francis has resigned from the company.

Mr T. M. Hollis and Mr A. J. Eastwood have been named assistant general managers (computer operations), Midland Bank, with effect from October 1.

Mr Brian W. Manley will become managing director of Pyc TMC on December 1. Currently he is managing director of Pyc Business Communications.

Mr G. W. ff. Dawney and Mr Peter Marriage have joined the board of Campbell's Soup.

Mr David Sears has been made

a director of Howard Machinery Group Services.

Mr Jack O'Malley has been appointed to the main board of Seicom Computer Services.

Mr R. G. Duthie has become a director of British Assets Trust/Industrial American Assets Trust.

Mr Michael Clark has been made managing director of Diploma (Sutton-Clark Associates).

Mr Peter Haxby, director of training, the K&N Transport Industry Training Board, is to join the Training Services Agency in January to succeed Mr Chris Hayes as deputy chief executive in charge of the industry division. Mr Hayes is retiring.

Mr Peter Gray has joined the board of Bribord Printed Circuits.

Mr John Kirby, a director of Gipsy Shipping, has been made chief executive for surface freight forwarding operations.

Utd News, Legal & Gen and G Wimpey

The following companies are reporting this week:

MONDAY—Interims— Bilton (Percy), Crossley Building Products, Energy Services and Products, Jersey Electricity, Fisons, Haden Carrier, Martin (Albert) Higgs, Ruo Estates Higgs, Sunlight Service, Travis and Arnold, United Capitals Inv Tst and Willis Faber.

Finals— Adwest Grp, Celtic Haven, Lockwood Foods, Parker Knoll and Surmah Valley Tea Co.

TUESDAY—Interims— Alva Inv Tst, Blockleys, Estates and General Inv, Finlay Packaging, Istock Johnson, James Harrison (Higgs), Solicitors' Law Stationery Society, Tomatin Dispensers, Oxley Printing Grp, Unicorn Inds, United News-

Results this week

papers, Walker (C. and W.) Higgs and Wm Morrison.

Finals— AB Electronic Components, Amalgamated Stores, Barratt Developments, Consolidated Plant, Haggas (John) Lydenburg Platinum, Martin (R. P.), MFI Warehouses, Sime Darby Higgs and Sizewell European Inv Tst.

WEDNESDAY—Interims— Aberdeen Construction, Brent Chemical, Central and Commercial Inv Tst, Fosco Minsep, Legal and General, Molins, Thomson T-Lint Caravans and Tootal.

Finals— A. Beckman, Bejam Grp, Burns-Anderson, Geo Whit-

tehouse (Eng) and SKF (nine monthly).

THURSDAY—Interims— Allied Polymer Grp, A. P. V. Higgs, Cartwright R. (Higgs), Brown Bros, Finlay (James), PPA Construction, Higgs and HBA, Hoskins and Horton.

Finals— (Cassels) Modern Engineers of Bristol (Higgs), Owen Owen, RMC, Refuge Assurance, Weeks Assoc and Wimpey (Geo).

Finals— Footwear Ind Inv, Starrite Eng Grp and Strong and Fisher (Higgs).

FRIDAY—Interims— Cakebread Robey, Lyle Shipping North British Canadian Inv, F. Miller (Textiles), Royco, Southern Construction (Higgs) and Tehidy Minerals. **Finals—** Baldwin and Francis, Ramer Textiles and Wankie Colliery.

September 26, 1977

Confident Esperanza may dip at half time

The progress of Esperanza Trade & Finance is most encouraging, says Lord Kissin, the chairman. The prospects for the company's services interest remain excellent, given their diversification around the world and the increasing demand for these services—particularly in rapidly developing areas like the Middle and Near East.

The group is now in a period of consolidation following its expansion over 1976-77, and profits for the first half of the current year may well be less than "the £2.7m made a year ago. However, Lord Kissin hopes that the second half of the current year may again see an improvement in the rate of progress of the service interests.

Over the full year to March 31, profits jumped from £2.9m to £5.3m, with over £5.2m of the total, coming from international services, compared with £2.8m. Copper and Pyrites contributed £470,000, against £269,000. The copper activities were down in the second half of the year in line with the low market price.

The importance of copper to the group, in which Guinness Peat has a 21 per cent stake, and Rothschild Investment Trust a 17 per cent holding, is growing less as the years pass. Most producers maintain that the market for copper has now reached a level which is below production cost, and the present level of copper prices hold, the mine will make no significant contribution to the results.

However, Lord Kissin emphasizes that the board will make every effort to maintain the operation of the mine as long as possible, although the original estimate was that its reserves would be exhausted by the end of the decade. The board has therefore made an exploration agreement with Noranda Exploration (Cyprus)

Both hotels have been fully operational for approximately two years and currently offer facilities to top international standards. Tender Documents and Data are available from the Statutory Trustee for the Assets who is in a position to give clear freehold title.

Tender Documents and Data — \$100 a set freight paid — refundable to bona fide tenderers.

Tenders close at 10am on Monday the 7th November 1977. The highest or any tender not necessarily accepted.

K.J. Jensen — Trustee for the Assets (pursuant to the Chateau Companies Act 1977) C/o Gillian Morris & Co, Chartered Accountants, 9th Floor, BNZ House, Cathedral Square, Christchurch, P.O. Box 274. Telegraphic address "Veritatem" Christchurch.

TENDERS FOR HOTELS IN CHRISTCHURCH AND BLENHEIM NEW ZEALAND

Tenders are invited for the properties known as:

LOT 1 CHATEAU HOTELS LTD, CHRISTCHURCH—

A hotel with guest accommodation in 94 luxury suites, located on an area of 2.4654 hectares, with handy access to the centre of the city and with ample room for additional wings of 135 suites.

LOT 2 CHATEAU COMMODORE (BLENHEIM) LTD—

A hotel with guest accommodation in 54 luxury suites, located on an area of 0.4692 hectares plus leased car park.

Both hotels have been fully operational for approximately two years and currently offer facilities to top international standards. Tender Documents and Data are available from the Statutory Trustee for the Assets who is in a position to give clear freehold title.

Tender Documents and Data — \$100 a set freight paid — refundable to bona fide tenderers.

Tenders close at 10am on Monday the 7th November 1977. The highest or any tender not necessarily accepted.

K.J. Jensen — Trustee for the Assets (pursuant to the Chateau Companies Act 1977) C/o Gillian Morris & Co, Chartered Accountants, 9th Floor, BNZ House, Cathedral Square, Christchurch, P.O. Box 274. Telegraphic address "Veritatem" Christchurch.

Babcock Nederland B.V.

(Incorporated with limited liability in the Netherlands)

U.S. \$35,000,000 7 per cent Convertible Guaranteed Bonds due 1992

guaranteed by, and convertible into ordinary shares of

Babcock & Wilcox, Limited

Issue Price 100 per cent adjusted for interest

The following have agreed to subscribe or procure subscribers for the Bonds:—

Orion Bank Limited

Banque de Paris et des Pays-Bas

Credit Suisse White Weld Limited

Kidder, Peabody International Limited

Westdeutsche Landesbank Girozentrale

The \$35,000 Bonds of U.S. \$1,000 each constituting the above issue have been admitted to the Official List of The Stock Exchange in London. Interest is payable annually in arrears on October 15, the first such payment being due on October 15, 1978. Dealings commence on September 26, 1977 for deferred settlement on October 13, 1977. All dealings in the Bonds will be conditional upon closing as set forth in the Subscription Agreement referred to in the Extel Card and upon the passing on or before 1 p.m. (London time) on October 10, 1977 of a resolution by the shareholders of Babcock & Wilcox, Limited to increase the share capital of Babcock & Wilcox, Limited by an amount at least sufficient to allow full conversion of the Bonds.

FINANCIAL NEWS AND MARKET REPORTS

Telefusion and its Trident ready for a reflation

Tony May

The current year at Telefusion has started against a background of depressed consumer spending, but colour TV has been buoyant. Mr J. Wilkinson, the chairman, says in his annual report that for several years any increase in sales has regularly been well offset by inflation, and prices provided by the group have shown a constant improvement. As living standards move, so must the demand for group products and this is reflected in improved sales.

For the past year, profits were up from £1.12m to £3.1m, turnover of £62m to £75m. Cash flow was £9.4m, which was adequate for new investment in fixed assets.

Retail trading maintained a satisfactory level of turnover for the year as a whole, but showed signs of flagging during the last quarter of the year, in line with dropping standards of living. Stocks were therefore higher than planned, but have since been reduced.

Meanwhile the 109 Trident branches have broadened their range of products. This in turn has given a boost to turnover in each branch and stabilized the level of business. In the past this has been more narrowly based on the larger electrical consumer durables, and was thus more vulnerable to the ups and downs of the economy.

The division is now well placed to take full advantage of an upturn in consumer spending. It can sustain, without further investment, a growth in activity, which, together with

Neepsend is aiming for satisfactory results

With a reflation of the economy very much in the air, the statement by Mr Stanley Speight, chairman of Neepsend, that the group is ready for any upturn is encouraging. Given a good grip on inflation and respite from the burden of legislation, which has been heaped on industry over the two years and which has increased costs, he is confident that the group will be able to produce satisfactory results in the coming year.

The group is installing plant to make it more competitive in the production of steel and castings. To do this, it is expanding the melting department of its Works and installing a new electric furnace to produce ingots for re-rolling and forging, and also to make castings for the Castings Division, which has developed new markets and therefore requires increased capacity.

Other plans to be installed in the Steel Division include additional bright drawing equipment and a bar peeling machine. This division was hit over the past year by a slump in the demand for its products when dumping of imports has been taking its toll.

The group will also be increasing the capacity of its Tool Division particularly for tooling for the motor industry to develop its marketing capabilities. All in all, the board aims to improve its competitiveness and achieve greater productivity.

Alexanders is having a better year

Alexanders Holdings, the Chrysler and British Leyland dealer, which has only recently returned to profits, is doing a much better trading according to Mr J. J. Jones, the chairman.

Over the six months to March 31 the group went from a loss of £5,000 to a profit of £75,000 against one of £75,000 made over the last year.

Mr Jones comments that the "moderate results" of the latest half year, the outward trend seems to be very good. This is of course due to a continued supply of cars.

Chemical Bank to buy 1 of Multibank

Chemical Bank to buy 1 of Multibank

Chemical Bank to buy 1 of Multibank

Liquidity feast may prove to be only temporary

Euromarkets

When Eurobond prices come under downward pressure, such as the case last week, market optimists usually seem to cheerfully say: "Don't worry, there's plenty of liquidity out there," writes AP-Jones.

The liquidity feast may not make the glutinous Eurobond market sick. At least it is the way things appear to be shaping up.

For one thing, there is the glut of the United States supply. No one seems to know what has caused the glut. The figures are not too far off from the run-up bank loan and. Nor do present United

RSC helps Anglo Am boost interim results

The interim results of Anglo American Corporation of South Africa show pre-tax profits more than doubled in R29m in the six months to June 30. Earnings a share went up from 31.2c to 33.2c. The directors have already declared an interim dividend of 8.25c against 8c. These figures include for the first time results of RSC and its other subsidiaries.

Davy buys Lloyds British

Briefly

Davy International has agreed to buy Lloyds British, a subsidiary of Francis Sumner (Holdings) for £17m. This will be satisfied by the issue of 648,269 Davy shares which have been placed with investment institutions. The Lloyds British shares will be transferred to Davy's subsidiary Herbert Morris.

The Lloyds British sale is effective from the start of the year. Its assets for 1976 were £573,000 and pre-tax profits £199,000, excluding extraordinary items. Davy has given assurances regarding the rights and employment terms to Lloyds British staff and workforce.

Freight report

Fixtures for West African cargoes along with a reasonable volume of business reported in both the Mediterranean and Caribbean sectors, brought a little spark of life into the tanker charter market last week. Gulf trading proved quiet, with very few vessels being fixed. Rate levels for these were ranged between 22 and 24 worldscale, 22 reflecting no change in the overall market position.

Sohio took a 240,000 tonner for a Gulf to UK/continental voyage at worldscale 22. Additionally, this charter included an option for a far east trip at worldscale 24.5, followed by six months storage. The rates for this latter period varied from

Weekly list of fixed interest stocks

Stock	Price	Yield	Dividend
ICI 5% 1982	101.5	4.8	4.8
ICI 5% 1983	101.5	4.8	4.8
ICI 5% 1984	101.5	4.8	4.8
ICI 5% 1985	101.5	4.8	4.8
ICI 5% 1986	101.5	4.8	4.8

Bank Base Rates

Bank	Rate
Barclays Bank	7%
Consolidated Credits	7%
First London Secs	7%
C. Hoare & Co	7%
Lloyds Bank	7%
London & Mercantile	7%
Midland Bank	7%
Nat Westminster	7%
Russminster Acc's	7%
Shearman Trust	9 1/2%
ISB	7%
Williams and Glyn's	7%

More share prices

The following will be added to the London and Regional Share Price List tomorrow and will be published daily in Business News:

Commercial & Industrial
Harrison T.C.

J.H. Nightingale & Co. Limited

Company	Price	Change	Yield	P/E
2,050 Airsprung Ord	41	-2	4.0	7.6
370 Airsprung 18 1/2 CULS	148	-	18.4	12.5
875 Armagoe	35	-4	3.4	16.5
4,338 Barrow Hill	142	-	12.0	8.4
2,161 Deborah Ord	161	+2	10.3	6.4
2,502 Deborah 17 1/2 CULS	170	-	17.5	10.2
6,502 Frederick Parker	135	-	11.5	8.3
9,042 Henry Sykes	106	+5	2.4	9.7
1,400 Jackson Group	56	+2	5.0	9.2
3,801 James Burrough	100	+1	27.0	6.1
3,080 Robert Jenkins	302	-	27.0	8.1
2,564 Twinklack Ord	12	-	12.0	18.7
1,747 Twinklack 12 1/2 ULS	64	-	7.0	10.9
2,785 Unilock Holdings	83	+5	6.4	8.2
5,242 Walter Alexander	83	+5	6.4	8.2

Authorized Units, Insurance & Offshore Funds

Unit Name	Price	Yield	Dividend
Abey Life Assurance	100.0	4.8	4.8
Abey Life Assurance	100.0	4.8	4.8
Abey Life Assurance	100.0	4.8	4.8
Abey Life Assurance	100.0	4.8	4.8
Abey Life Assurance	100.0	4.8	4.8

§ Forward bargains are permitted on two previous days.

(Current market price multiplied by the number of shares in issue for the stock quoted)

WILSON

New Home and Gre

Modern a

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London Property

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SECRETARIAL

TWO ADMIN SECRETARIES
IN EDUCATION

We are a nationally recognised Institute in Educational and Secretarial Training. We are currently seeking two experienced Secretaries to join our staff. The successful candidates will be responsible for the day-to-day running of the Institute and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

Phone Susan Penney, 01-437 4934

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To College Leaver Secretaries (and those with a little experience) to visit us. We have a profusion of opportunities throughout London in worthwhile work. Make the right start in your career. Call at:

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110 Strand, W.C.2
836 6644EAGER FOR
EDITORIAL?

£2,700

Implement your secretarial skills in the exciting world of publishing. We are looking for a highly motivated and experienced secretarial professional to join our editorial team. The successful candidate will be responsible for the day-to-day running of the editorial department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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VARIETY IS THE KEY

£3,500

This is more than a secretarial job. It is a challenge. We are looking for a highly motivated and experienced secretarial professional to join our editorial team. The successful candidate will be responsible for the day-to-day running of the editorial department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

CHURCHILL PERSONNEL
Recruitment Consultants
15 Wilton Road, S.W.1HELP P.R. DIRECTOR
ANALYSE PRESS
REPORTS

Senior director responsible for a wide range of public relations and press relations. The successful candidate will be responsible for the day-to-day running of the public relations department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

CHURCHILL PERSONNEL
Recruitment Consultants
15 Wilton Road, S.W.1CUSTOMER LIAISON AT
PRESTIGE WINE
EXPORTER

Export Manager at smart West End firm of wine exporters. The successful candidate will be responsible for the day-to-day running of the export department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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WINE MERCHANTS

Buy Sales Director of small family owned wine merchant. The successful candidate will be responsible for the day-to-day running of the sales department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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Architectural Practice in central London. The successful candidate will be responsible for the day-to-day running of the administrative department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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SECRETARIAL

Secretary needed for the Managing
Director of Paul Elek Ltd.

Applicants should have secretarial experience and an interest in book publishing. Job will provide opportunities for working with all departments. It will involve helping the Managing Director in a wide range of administrative tasks. The office is well equipped and friendly. Salary according to age and experience, c. £2,900.

Write to David Herbert
PAUL ELEK LTD.
54 Caledonian Rd., London, N.1.
or telephone 01-278 6552GERMAN PUBLIC
RELATIONS

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Your independent mind and creative abilities will be put to use in a challenging role. We are looking for a highly motivated and experienced secretarial professional to join our German public relations team. The successful candidate will be responsible for the day-to-day running of the German public relations department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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THE BUY-SELL WORLD

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People contact will play an important part in your job. We are looking for a highly motivated and experienced secretarial professional to join our buy-sell world team. The successful candidate will be responsible for the day-to-day running of the buy-sell world department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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ARE YOU PERFECT?

£3,500 p.a.

If you enjoy producing impeccable work, we are looking for a highly motivated and experienced secretarial professional to join our perfect team. The successful candidate will be responsible for the day-to-day running of the perfect department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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Required for a leading firm. The successful candidate will be responsible for the day-to-day running of the executive assistant secretary department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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£2,900

In this exciting, natural world, you will be responsible for the day-to-day running of the fascinated by nature department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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The luxury of your own office. We are looking for a highly motivated and experienced secretarial professional to join our director's pa/sec team. The successful candidate will be responsible for the day-to-day running of the director's pa/sec department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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£3,500 p.a.

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£3,500 p.a.

Research Assistant c. £3,700. The successful candidate will be responsible for the day-to-day running of the baling Broadway department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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£3,500 p.a.

THE
MUSLIM INSTITUTE
for Research and Planning

The MUSLIM INSTITUTE, which is now moving into its new premises in London, offers new graduates studentships for research in Islamic studies. The successful candidate will be responsible for the day-to-day running of the muslim institute department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

DR. KALIM SIDDIQUI,
32 WARRINGTON AVENUE, SLOUGH, BERKSHIRESCHOLARSHIPS AND
FELLOWSHIPSKENNEDY SCHOLARSHIPS
1978

Up to 12 Kennedy Scholarships are available for postgraduate students in the field of Islamic studies. The successful candidate will be responsible for the day-to-day running of the kennedy scholarships department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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WINDSOR CASTLE

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Selection for chaplains on 4 November 1977. The successful candidate will be responsible for the day-to-day running of the st. george's chapel windsor castle department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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WANTED

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Wanted - Volkswagen Scirocco. The successful candidate will be responsible for the day-to-day running of the motor cars wanted department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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MOTOR CARS

£3,500 p.a.

Luxury motor car that will appreciate in value for about £2,000. The successful candidate will be responsible for the day-to-day running of the motor cars department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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R. A. AND L. E. R.

WALTHO

1984 4.2 litre diesel E type. The successful candidate will be responsible for the day-to-day running of the r. a. and l. e. r. department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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RENTALS

£3,500 p.a.

HOUSEHOLD LANDLORDS. The successful candidate will be responsible for the day-to-day running of the rentals department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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JENSEN INTERCEPTOR

£3,500 p.a.

Model 74. Very low mileage. The successful candidate will be responsible for the day-to-day running of the jensen interceptor department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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Most Dependable Ford

£3,500 p.a.

1976 Ford Escort. The successful candidate will be responsible for the day-to-day running of the most dependable ford department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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ALFA ROMEO ALFETTA 1.6

£3,500 p.a.

1976 Alfa Romeo Alfetta. The successful candidate will be responsible for the day-to-day running of the alfa romeo alfetta department and will be required to manage a team of secretaries. The Institute is a leading authority in the field of secretarial training and is well known throughout the country. The successful candidates will be required to have a minimum of five years' experience in a similar position.

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ARCHITECTURAL PRACTICE

£3,500 p.a.

THE
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ANNUAL FINANCIAL REVIEW

Recession persists as recovery strategy breaks down

by David Blake

For the past four years the world has been facing the twin problems of recession and inflation. Since the oil-producing countries decisively shifted the balance between these two unwelcome factors of the economy to the disadvantage of the rest of the world, governments and people have been hesitating about the extent to which they could cure one at the expense of accepting more of the other.

Inflation is still with us and shows no sign of going away but it is the recession which has been gathering pace throughout the past year and which seems likely to dominate 1978 unless governments take action within the next few months. With that recession has come rising unemployment throughout the West and growing financial difficulties or a number of weaker countries.

Although there has been much talk lately of the need for coordinated action to steer the course back to full employment and price stability, the pressure of events has been moving the world towards a painful attempt to cure payments imbalances at the price of sacrificing employment.

What has broken down is the theory which underlay the strategy of the industrial world for charting its way out of recession. This started from the premise that only a slow recovery could move the world back towards full employment without rekindling runaway inflation. The high point of this philosophy came in the summer of 1976, when the Western nations committed themselves to what was meant to be a five-year plan for moving back to full employment in at least some countries by 1980. The targets were deliberately modest, implying that many countries would have to accept continuing unemployment for some years; but they have been missed by a long way.

It has been clear for at least a year that the countries of the West have lost the impetus of their recovery. In July, 1976, all the indicators seemed to suggest that growth was proceeding rapidly everywhere and there were even fears that things might be moving too fast. When the leaders of the seven main industrial nations met in Puerto Rico last summer, the talk was all about the need to hold the line against inflation.

Exchange rate changes push up inflation

The latter has steadied at a level much lower than the figures we saw in 1974 and 1975 just after the increase in oil prices. It now seems to be static at about 8 per cent in the industrial world as a whole. That is about double the average rate for the decade from 1963 to 1973, but it is well below the 13.5 per cent recorded in 1974 and the 11.4 per cent of 1975.

Much of the inflation in the past year has come from exchange rate changes pushing up the inflation rate in those countries which have been running payments deficits since the oil crisis. This increase in prices ought to be a once and for all change; if the system is to adjust as intended at present, there will be no scope for a new round of pay increases in these countries leading to more inflation. The question is whether the system is adjusting on the right lines and if so at what cost.

The idea that the weaker, deficit-ridden countries of the world would have to make a special effort in the coming years owes more to political compromise than to economic theory. By the autumn of 1976 it was clear that the optimistic forecasts for world growth common in the summer of that year had been wrong. The response was to break the link between the strong countries and the weak in the industrial world. The initial notion was that all the countries should try to move forward together in some sort of convoy, with the stronger nations going a little faster and pulling the weaker nations along.

When the first pessimistic forecasts for world growth became available, at about this time last year, the logical thing to have done, consistent with this policy, was to call for a general response by all the nations of the industrial world to stimulate their economies. Such action was not forthcoming. Instead it was decided that the convoy should split apart, with the weaker countries abandoning their pursuit of growth in an attempt to achieve price and

(more immediately necessary from their point of view) balance of payments stability. The stronger countries were not asked to increase their targets to make up the ground lost; instead, they were told that they should strive to achieve the rate of growth which they had promised or been allocated in the general setting of targets.

Such an approach, which has dominated the past year and echoes of which will no doubt be heard during the



Gerry Cravens

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Danger of a slump without end

The lack of investment is in turn one of the prime causes of that lack of demand, thus feeding on itself. In the medium term, the outlook is for one where unless a way is found of breaking out of the circle of low growth leading to low investment which leads to low growth, the West could be committed to a recession without end.

In the debate on this topic, two countries, the United States and Germany, have played a decisive role. The Germans have most persistently argued against any action to try to stimulate the world economy, though the Japanese have acted in much the same way. As a result they have experienced huge surpluses on their payments balance which have made them such a powerful source of finance that it has become more and more difficult for deficit countries who need the money to exert pressure on them.

The burden of doing this has fallen on the United States and it is a burden which the country has accepted with an erratic sense of enthusiasm. The Carter Administration came into office with a reputation for being more expansionist than the Ford regime which preceded it, and it started out by living up to this image with highly publicized calls for action by the stronger nations.

By the middle of the year, however, the Carter Govern-

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by Frank Vogl

The United States economy roared ahead in the first quarter of this year, maintaining almost as rapid a growth rate in the second quarter and appears to have run out of steam in this quarter.

The most important question is whether the recent slowing will be merely temporary or whether it heralds the start of a gradual drift into another recession.

Share prices on the New York Stock Exchange are low and indicate that on Wall Street, at least, the general mood is one of pessimism. About 13 of the 30 shares that comprise the Dow Jones industrial average are trading below book value and the last time this happened, shortly after the last war, expectations were widespread of a new depression.

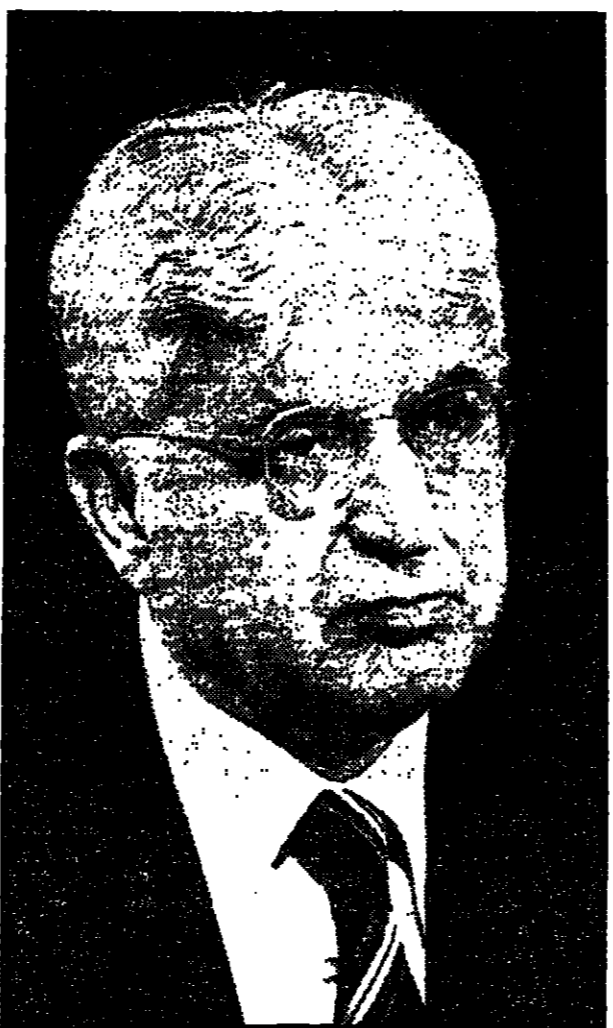
In sharp contrast the economists in the Carter Administration continue to be bullish. They are confident that a considerable

economic growth rate, accompanied by modest inflation, will be seen in the year ahead. They doubt that the annual real gross national product rates of the first and second quarters of respectively 7.5 per cent and 6.4 per cent will be repeated, but they expect an average real gnp rate in the next four quarters of about 5 per cent, or slightly higher.

Most private economists find themselves slightly closer to the bulls in the White House than to the bears on Wall Street. There are a few exceptions, however, whose arguments are worth noting.

The rate of private investment spending has been slow so far, while consumption has been quite brisk and, if trends continue, there is a danger of some capacity bottlenecks late next year, which could spark a new wave of serious inflation. That undoubtedly would push the economy into a recession, even if only a slight one.

That view is countered by



Dr Arthur Burns, chairman of the Fed: convinced that rapid expansion of the money supply would prove disastrous.

most economists who expect that general consumer demand will slow somewhat, giving manufacturers more time to expand plant and install new equipment and that for 1978, at least, the prospect of capacity bottlenecks is remote. They note, after all, that industrial plant capacity use levels are still averaging under 85 per cent.

There can be little doubt, however, that if capacity bottlenecks are avoided, then capital outlays must rise significantly over the next year, ensuring that this is a serious matter for the Administration.

The Administration has devised a set of complicated tax reforms. It will be some weeks before these reforms have been assessed and their prospects of congressional approval analysed, but they are clearly a move in the right direction.

Many of the pessimists today fail to recognize the stimulus that will be provided to the economy as a result of government actions in the months to come. The federal budget in the fiscal year ahead will be sharply in deficit. The number of new public works programmes to come on stream in the next 12 months will be formidable.

In addition, approval by the Congress of President Carter's tax reform plans may lead to some general lowering of tax rates by next summer and so add to the overall stimulus.

Inflation is unlikely to improve much because of this stimulus to the economy provided by government programmes, despite the fact that the economy's growth rate may slow modestly. The inflation rate was temporarily affected by the exceptionally harsh winter, but its underlying rate this year has been 6.5 to 7.5 per cent and at best it would appear that it will continue at about 6 per cent in the next 12 months.

While fiscal policy has been stimulative and will continue to be so, the monetary policies that have been pursued have also tended to serve as a deflationary force and the inflationary consequences are likely to be disturbing.

The Federal Reserve Board (Fed) has sought to tighten credit policies gradually, but its targets for the money stock are still well above the economy's real growth levels and will continue to be so.

The Fed has sought to walk along a narrow path between the demands of Congress for much easier money conditions and the conviction of Fed economists, including Dr Arthur Burns, the chairman, that a rapid rate of money supply expansion will prove disastrous. The Fed has not had the courage to mount a full-scale battle against Congress, but has sought instead for money growth rates that Dr Burns candidly admits are too high.

Every time he strives to lower these rates he meets a

United States

Capital spending is big issue for Administration

Pressures are bound to mount for even greater public works programmes and for even more money and fiscal stimulus to deal with the high unemployment. It is on this issue that the President may face one of his hardest decisions.

President Carter is publicly committed to achieving a balanced federal budget by the 1981 fiscal year. In order to do this he must announce a budget plan in January that contains very little new public expenditure and it is difficult to see how he can do this given the considerable pressures he faces for urban renewal, public works and social welfare programmes.

As each day passes the President's economic aims appear more and more unrealistic. He has declared that he wants to see the inflation rate cut to about 4 per cent by the end of 1979, but his anti-inflation programme is completely forgotten and without new initiatives that target cannot be achieved.

He has declared that he aims for about 5 per cent unemployment by 1980, but to achieve that the real annual gnp rate from now until then must probably be close to 6 per cent. Such a rate will be hard to achieve.

The balanced budget goal also seems pure fantasy, as the President cannot afford politically to renege on all of his social assistance plans and the economy stand the sharp deflation that this goal looks like necessitating in 1979. Having said that, however, there is no reason to assume on the basis of the economic outlook and of policies now in place, that

by 1980, the President will not have taken the nation some way towards the attainment of his budget and employment goals. The inflation prospects are likely to remain bleak.

On the international front the prospects for much of an improvement in the United States balance of payments in the next 12 months seems remote. The current account this year may end with a record deficit of more than \$12,000m, while the trade deficit totals in excess of \$25,000m.

The dollar has fallen somewhat in recent months as a result of the signs of a domestic economic slowdown and because of the widening external payments deficits.

In coming months, when it is realized abroad that the American slowdown is unlikely to be dramatic and as the Fed's modestly tighter credit policies start to have some impact, it seems likely that the dollar may recover some of its recent losses.

The outlook for the economy in the year ahead is thus not encouraging. Fears of a new recession and of a revival of inflation are bound to continue and are bound to damp business investment levels.

The President will have to face the fact that his economic goals are too ambitious, while fighting tough battles to ensure support for tax and energy programmes and to restrain those who will demand much greater fiscal and monetary stimulus than is planned.

The author is United States Economics Correspondent, The Times.

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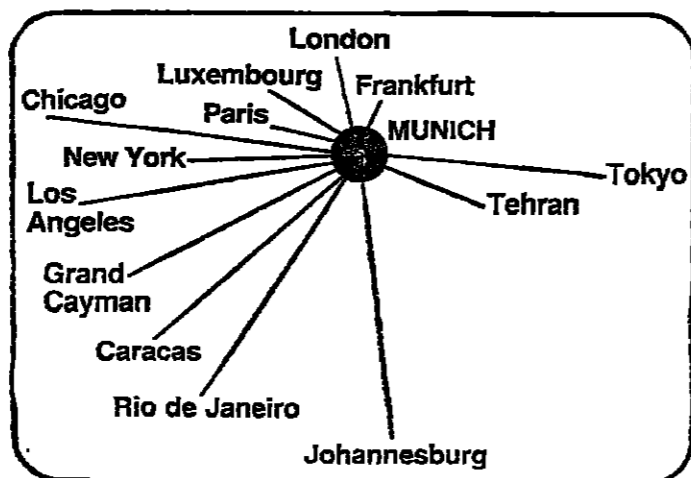


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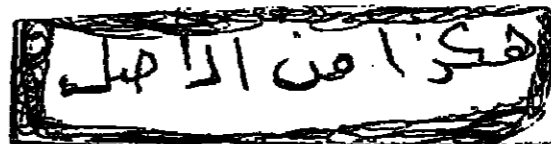
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Japan

Monetary policies restrain expansion



by John Greenwood

In the past year, since the International Monetary Fund conference in Manila, the performance of the Japanese economy has provided a striking test of monetary versus fiscal policy on the domestic side, and an even more dramatic test of the authorities' responsiveness in the face of an unbalanced external trade account.

The response of the economy to the first difficulty and the response of the authorities to the second shows the importance of the great change in Japanese economic policy since July, 1974.

Since September last year at least five separate sets of fiscal measures have been announced or introduced, each supposed to be designed to stimulate the economy. In October, 1976, the passage of a special Finance Bill in the Diet allowed the Government to float bond issues totalling 3,750,000 yen in the period before March,

1977, to finance the budget deficit. In November further fiscal measures were approved relating mainly to the building of homes. In January a supplementary budget of 354,200m yen was passed, most of it earmarked for spending on public works. Those measures were expected to take effect by April. In March a fourth programme designed to speed up the placing of public works contracts was adopted.

Finally, the Government decided on a 2,000,000m yen supplementary budget, again giving special favour to housing and public works. But in spite of those measures the domestic economy failed to respond. Now was the paradox to be explained.

One reason for the failure was the many programmes found in the conduct of monetary policy. Whatever may have been said by the Government last year in Manila about boosting domestic demand to stimulate imports, the fact

is that at the same time the monetary authorities were going in the opposite direction.

In June, 1976, Japan's money supply (M2) increased over the corresponding month of the previous year by 16.1 per cent. At the end of August that figure fell to 14.5 per cent and by the end of the year to 13.5 per cent. Nor was that the end of the decline. Broadly defined money supply fell to 11.2 per cent in May this year.

That decline may not seem remarkable but it should be remembered that by Japanese standards those rates of growth are historically low compared with an average annual growth rate between 1961 and 1971 of 18.9 per cent.

Looked at in that light the results of the policy for Japanese economic growth over the year are much more understandable. Industrial production declined through the second half of last year and remained weak in the first half of 1977.

Japanese commodity markets reflected persistent signs of oversupply as companies continued to try to cut back on stocks. The widely followed Nikkei index of commodity prices, for example, fell from 165.7 in September last year to 156.5 at the end of August.

Wholesale prices have also come down, which is likely to lead to lower prices in the shops and capital markets. The demand for funds from private business has been weak, so interest rates have fallen slowly and without much interruption throughout the year.

In spite of that, investment intentions have not been stirred. There are, of course, exceptions. The motor industry, electrical appliance manufacturers, public utilities and certain parts of the building industry have found a brisk demand for their products. But most industries have tried to repay their loans rather than borrow more to try to produce more.



A Tokyo supermarket: prices may fall.

Stagnant demand has meant that industrial profits, again with notable exceptions, have fallen. Where the pre-tax profits of companies listed on the first section of the Tokyo Stock Exchange rose by 15.3 per cent in the year to September last year, the rise this year will probably be only about 10 per cent.

Internally, therefore, the

Externally the balance of international payments has also reflected Bank of Japan restraint. Through the year the yen has appreciated from an average of 227.86 to the United States dollar in September, 1976, to about 267 in August this year.

In spite of that the Japanese trade balance has continued to show embarrassingly large surpluses. The main reason is not so much a deliberate conspiracy to export more but rather that imports have remained weak, reflecting the lack of domestic demand resulting from the restrained monetary policy.

Exports, however, have been strong but looked at in perspective, and in terms of the dollar, they are nearly in line with the secular historical trend established before the 1972-73 expansion. It is true that the Japanese domestic markets remain difficult for foreigners to penetrate. The more intense competition which has resulted

in more than 1,000 Japanese companies going bankrupt a month, means that the risks of failure are high.

Of most interest has been the great contrast between the response of the authorities to balance of trade or balance of payments surpluses in the late 1960s or the early 1970s and their response in this cycle.

Under pressure from the American textile lobby in the late 1960s and from the Nixon Administration in the early 1970s, the Japanese responded with "adjustment inflation". That is, increasing domestic demand by both monetary and fiscal means so that imports rise and are sufficient to the domestic market until the trade balance reverts more nearly to equilibrium.

This time, however, the authorities have resolutely resisted such a course. Their response to American or European pressure to stimulate the economy, if there has been any response, has been almost entirely on the fiscal side.

But since there has been no accompanying domestic monetary stimulus, the only real adjustment has been restricted to the foreign exchange markets, in the upward floating of the yen.

Japan, in other words, has concentrated on a policy of internal not external objectives.

The fact that the authorities have neither allowed domestic political pressures nor foreign demands on Japan to reflate to lead to the kind of mistake in policy which occurred in 1971-72, is perhaps evidence of a greater maturity in the conduct of policy.

Whatever the intellectual and political origins of that transformation, the results have been important for Japan and for Japan's trading partners.

Though the economy is not growing at the rate of the 1960s, it is generally more stable and consistent with that of a country with one of the most developed economies.

West Germany

Inflation rate likely to fall

by Peter Norman

After five weeks of rumour, deliberation and inter-party brokering, the coalition Government of Chancellor Schmidt, finally put together in the middle of September a new package to underpin West Germany's faltering recovery from recession.

It had become increasingly clear as the summer progressed that West Germany would fall short of its targets of a 5 per cent real growth in gross national product this year and a reduction in the average level of unemployment to between 850,000 and 900,000 from more than a million in 1976.

At best, real economic growth is likely to turn out at 4 per cent, although many observers regard this fore-

cast as too optimistic. Unemployment will average more than a million for the third year running.

Only one of the Government's economic policy goals is likely to be fulfilled.

One reason for the failure was the many programmes found in the conduct of monetary policy. Whatever may have been said by the Government last year in Manila about boosting domestic demand to stimulate imports, the fact

is that at the same time the monetary authorities were going in the opposite direction. In June, 1976, Germany's money supply (M2) increased over the corresponding month of the previous year by 16.1 per cent. At the end of August that figure fell to 14.5 per cent and by the end of the year to 13.5 per cent. Nor was that the end of the decline. Broadly defined money supply fell to 11.2 per cent in May this year.

That decline may not seem remarkable but it should be remembered that by German standards those rates of growth are historically low compared with an average annual growth rate between 1961 and 1971 of 18.9 per cent.

Looked at in that light the results of the policy for German economic growth over the year are much more understandable. Industrial production declined through the second half of last year and remained weak in the first half of 1977.

will be cut by an overall amount of 5,700m marks a year through raising the thresholds at which income taxes begin to apply and raising the tax-free Christmas allowance. The Government hopes to push the measures through swiftly so that the latter provision can apply this year with the result that most Germans will have an extra 66 to 168 marks to spend at Christmas.

The Government's plans for business taxation foresee more generous treatment of declining balance depreciation with effect from September 1 at an annual cost of some 1,730m marks to the Bonn Finance Ministry.

The tax cuts and the budget increase—which exceeds the expected 8 per cent growth in nominal gnp next year—are designed to stimulate personal consumption and encourage businessmen to invest.

They are backed up by specific measures to help

to boost the economy. Over the next four years, for example, 4,350m marks will be made available for householders undertaking energy-saving investments on their properties.

Public sector housing, the federal post office and railways, industries spending more on research and development and people wishing to set up new companies will all receive increased government aid.

At the same time, a 16,000m mark four-year programme for improving Germany's communications and services, which was agreed by the federal, state and local authorities in the spring, is being pushed through.

Perhaps the best indicator as to the scale of the new measures is provided by the changes that they mean for the Government's medium-term borrowing plans.

Instead of cutting the net borrowing requirement to

19,700m marks next year from an expected 20,700m in 1977, the Federal Government will increase net borrowing in 1978 to 27,500m marks.

If the state governments and local authorities also adopt expansionary policies, the overall public sector net borrowing requirement should rise by 14,000m marks next year to 47,000m marks.

As far as the Federal Government is concerned, an expansionary budget policy is back in favour. Economic developments have forced Dr Hans Apel, the Finance Minister, to defer his plans for a consolidation of the federal budget.

But the lesson of Germany's fitful recovery from recession must be that federal efforts alone are insufficient to produce the desired steady inflation-free growth that is seen as the only means to restore full employment.

Since the onset of the oil

crisis in 1973, the coalition of Social Democrats and Free Democrats in Bonn has introduced a succession of economic recovery programmes. The Federal Bank in Frankfurt has steered monetary policy in such a way as to bring long-term interest rates to their lowest levels for 13 years.

Money in Germany is cheap and abundant, inflation is low, the Federal Government has been doing its best to stimulate demand, but the key master of about a million unemployed remains. It is generally agreed that it would be on the way to being eliminated if private industry were to invest more.

The states and local authorities can be criticised for having dragged their feet on spending over the past two years and there is also a growing percentage of the unemployed who are becoming unemployable.

But if full employment—

and that means an unemployment total of between 400,000 and 500,000—is to be restored, the private sector must be persuaded to invest. Clearly more is needed than a modest improvement in depreciation allowances.

The missing factor in the equation is business confidence. Although it is now two years since Germany started to pull out of recession there has been no marked recovery of optimism among businessmen.

There are plenty of factors to deter the German businessman from increasing investment.

More than a cloud hangs over the future of the country's energy supplies since environmentalists and anti-nuclear power activists have forced court decisions halting work on power station projects worth an estimated 16,000m marks.

Exports are also a worry. Over the first half of this year they failed to increase

in line with expectations, largely because of a slower world trade. The German businessman is also acutely sensitive to currents of protectionism outside his own country.

The biggest concern is costs and particularly the cost of labour.

Since the end of the 1960s Germany has turned from being a low-wage to a high-wage country. Unit labour costs are now higher than in the United States and about twice the level in Britain or Japan.

The recession provided a heaven-sent opportunity for many businesses to dispose of surplus labour acquired in the boom of the 1950s and 1960s. The return of a positive growth in gnp has not been matched by any overall increase in the willingness to take on staff.

Where there is a demand for staff, it is for the skilled worker. There is little demand for the unskilled,

who in the boom of the 1960s could pick and choose where and when to work.

Both the Government and the Federal Bank in Frankfurt have urged unions and employers to negotiate moderate wage settlements this autumn as a precondition for stimulating economic growth and restoring full employment.

The outlook for moderation in the forthcoming round of collective bargaining is not good. Relations between the unions and employers have yet to recover from the employers' decision earlier this year to challenge the constitutionality of the new law on worker codetermination in West Germany.

Ominously, during the public debate that preceded the latest government economic package, leading trade unionists missed no opportunity to say that personal income tax reductions would have no influence on their negotiating stance.

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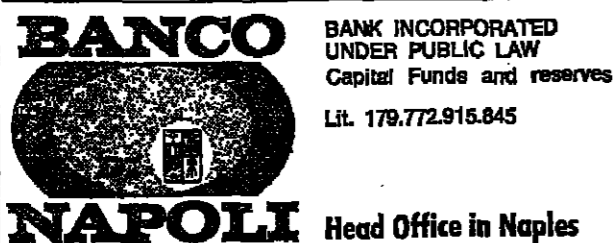
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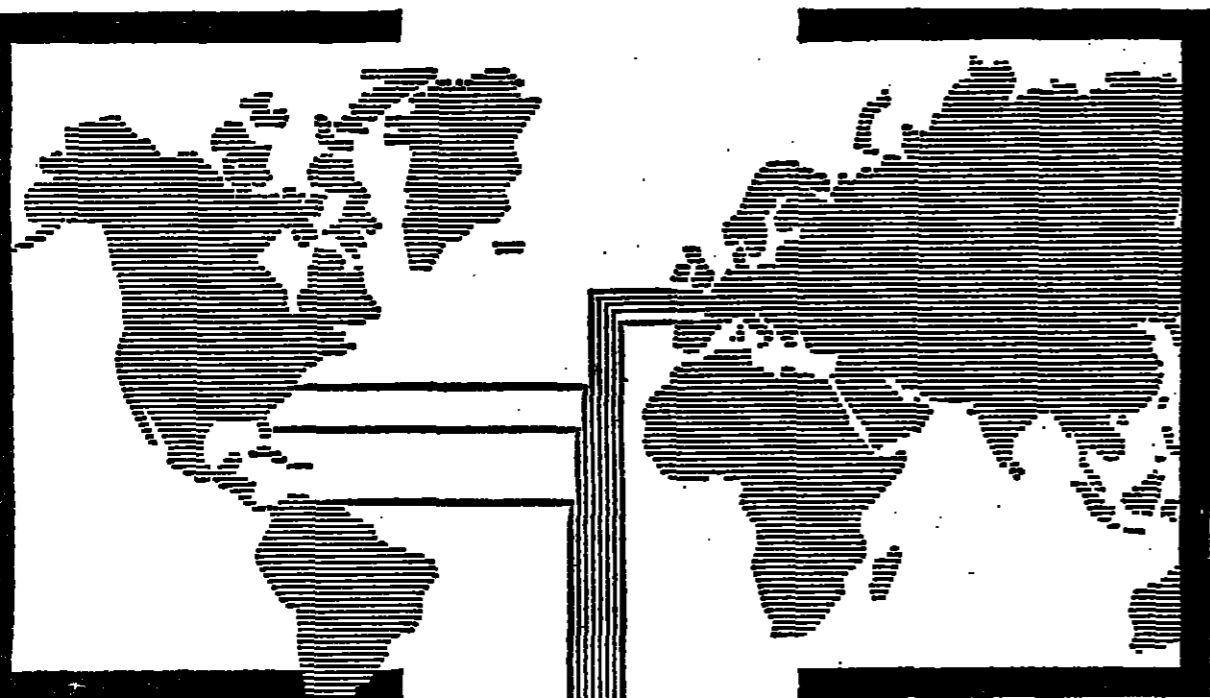
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France

The battle of prices only half won

by Charles Hargrove

It is just about a year since M. Raymond Barre, whom President Giscard d'Estaing has described as "the best economist in France", a man of high academic reputation but no practical political experience, was appointed Prime Minister to shore up the French economy, which was showing signs of serious weakness, with a strong dose of austerity.

In presenting his anti-inflation programme, he summed up the situation in the following terms: "The excessively rapid rise in prices endangers the trade balance, and this in turn runs the risk of undermining national independence. Moreover it has brought about a depreciation of the franc, which leads to an impoverishment of the country, and in turn stimulates inflation. Finally, it discourages investment, and in so doing deprives the economy of this essential factor of growth, leading in due course to recession and unemployment."

Last autumn, the rate of

inflation in France was more than 10 per cent and showing signs of acceleration. The balance of trade was running a deficit of 3,000m francs a month. The franc had depreciated by more than 10 per cent against the dollar between January and September. Unemployment was rising steadily and had reached 950,000. For a country dependent for more than 50 per cent on imported sources of energy, with no silver lining in the form of North Sea Oil, the situation, if unchecked, threatens to become disastrous.

M. Barre said recently in a radio interview that he was "neither Don Quixote nor Zorro". He set himself three main objectives: to reduce the rate of inflation to manageable proportions; to restore the balance of trade; and to consolidate the franc while maintaining growth and preventing the economy from lapsing into severe deflation.

His recipes were neither revolutionary nor spectacular, but eminently classical. The dose of austerity was severe, but not draconian. Convinced that inflation in France was primarily cost-

led, the Prime Minister determined to act on wages, whose progression was faster than the rise in production and the growth of production.

But he appreciated that in order to bring the rise in wages in line with the increase in prices—there was no question of getting his fellow countrymen to accept, like the British, a cut in their standard of living—he had to act for psychological reasons, on prices first, and decrease a three-month temporary price freeze, until the end of last year.

In pursuit of these objectives, the Prime Minister has remained firm as a rock in a storm-tossed sea, as he himself has said, unfazed and unmoved by the concert of lament and protest which inevitably arose as his policy began to hurt. Convinced that one of the conditions of success in business and continuity, he has, on the whole, resisted successfully strong pressure from employers and labour to relax controls, and to prime the economic pump; and refused to sacrifice one iota of his plan for reasons of political expediency.

Although crucial parliamentary elections were only 18 months away when he launched it, he repeatedly insisted that his success could only be judged over a two or three-year span; and that sound economic management, even if it hurt, was electorally more profitable than short-termism and economic demagoguery, for which the voters would not forgive the Government.

In a country where psychological factors play so important a part on economic performance, the Prime Minister's indestructible, almost fanatical, self-discipline, given that it was not too brutally challenged by facts, has proved a valuable asset in countering the mood of depression and resignation to the fact of the steady advance of the left-wing opposition, and the prospect of a left-wing government coming to power in March, 1978.

One year after the launching of the Barre plan, the score is on the whole positive, although one or two trouble spots have remained impervious to his solution. It has restored the stability of the currency, almost eliminated the trade deficit, slowed the progression of wages, rents and salaries, and all this without any labour unrest or widespread strike action. But the battle of prices has been only half won; and unemployment has reached unprecedented levels; while there are distinct threats of economic stagnation, if not of actual recession.

The progression of remunerations has not exceeded the rise in prices over the past year. The real increase in wages on an annual basis was running at more than 13 per cent according to the Ministry of Finance. It is now down to 11 per cent, just a little more than the rate of inflation. This has meant an increase in the profit margin of firms, one of the aims M. Barre set himself from the outset to stimulate economic activity. The price front is less satisfactory.

The franc has weathered the recent spell of turbulence on the exchanges which affected the dollar remarkably well, and even appreciated in relation to it, while its depreciation against the Deutsche mark was less than might have been expected.

Opposition experts claim that this has been achieved by extensive borrowing on the Eurodollar market—and the country's indebtedness in the past year has risen by about 10,000m francs to 44,000m francs. But it is only

half the story. There has been a halt to speculation against the franc because the Prime Minister's image of economic stringency has strengthened confidence abroad.

The trade balance has shown a dramatic improvement in the past six months. The deficit has been reduced from 3,000m francs in January to 100m francs in July, and equilibrium will have been achieved by the end of the year, the Government estimated. The overall trade deficit for 1977 is expected to be about 11,000m francs, as against 21,000m francs in 1976, while the balance of payments deficit will probably also be down 50 per

cent from the 29,000m francs of 1976.

These results have been achieved largely by a sharp drop in imports, because of a fall in demand, in spite of last summer's drought, which stepped up food imports and reduced exports, and the rise in price of imported staples like coffee and cocoa, and raw materials. Exports, although more slowly than expected because of the delayed refilling of the German and American economies.

In relation to July 1976, exports have progressed by 9 per cent and imports by 8 per cent. Oil imports, which account for 15 per cent of

the total import bill, have kept down strictly to the 55,000m francs target set for this year.

Although the Government never expects to achieve the 6.5 per cent increase which was mentioned as a target in the anti-inflation plan (the price index rose by 9.5 per cent in 1976), it hoped to get the figure down to between 7 and 8 per cent. But the effect of the drought on food and vegetable prices, the spectacular rise in the price of coffee (which accounts for 5,000m francs in the yearly import bill) make it more likely that the index for this year will be somewhere between 8.5 and

8.5 per cent, according to government experts, barring any sudden flare-up in the cost of oil or imported raw materials.

The real black spot is employment. The total job seekers now stands at an unprecedented post-war figure of 1,186,000, an increase of 250,000 in six months. It has taken over from inflation (with a measure with which France became accustomed to since the war as the Government's main concern). The Government is not sanguine as to think that can reduce employment at the end of the year. It is to check the upward trend and stabilize it at about just below the present figure.

Italy

From weakness comes strength

by John Earle

The weakness of Signor Giulio Andreotti's government, which took office in the summer last year, has proved to be its strength. As it is a minority Christian Democratic administration, the other parties knew they had to support it, or risked a look. Among his recommendations, he suggested tighter budgetary procedures and greater attention to new spending commitments, a block on recruitment of government officials, the elimination of unnecessary government agencies, and a stop to a new borrowing by public health institutes.

The parties programme is drawn up within the IMF framework, but takes certain details further such as, in tackling the public health deficit, approving a dispensary charge for medicines and a temporary ban on pharmaceutical advertising. In August the Cabinet acted on a proposal in the programme to introduce a tax credit on dividend income, thereby eliminating the double taxation of company revenue, first in the firm's company tax, then in the dividend paid to shareholders.

The importance of private initiative is recognised in a sector of the programme headed "An active role for the company". The six parties formally oppose any enlargement of the public sector. Instead, they still existing state-owned industries, through-going reform to stimulate capital investment and the entrepreneurial spirit, the parties favour a formulation of framework plans, particularly for sectors in difficulties such as the steel, textiles, and building.

In a European country they recommended development plans to ensure a quite Italian presence, technologically advanced tools like electronics and aviation.

It was taken for granted that the Communists were now in government, even if they had no ministries, and even if no one said so loudly for fear of alienating old diehards inside both the Christian Democrat and Communist parties, or upsetting the Americans or West Germans. Too much shouting could threaten the fragile basis of this partnership.

If it lasts, the presence of the Communists may prove a postwar watershed, not in causing any abrupt break with the past, so much as in offering a stability lacking in recent years. The Communists, acting to all appearances more as Social Democrats, are able to provide teeth for policies which the Christian Democrats, intentionally or not, would not have been in a position to carry out alone.

The six party programme for the Government contains an economic section which, generalized and nebulous in some parts, foresees concrete action in others.

Programme lists four targets

It lists four grave phenomena to be combated: persisting inflation; high balance of payments deficits; heavy foreign indebtedness; and fragile foreign exchange reserves; a serious public sector deficit; unsatisfactory capital investment and employment levels, particularly of young people.

Tackling these problems in turn, inflation has been slackening thanks to a combination of government policies and more favourable world conditions. During the summer, wholesale prices showed a particularly encouraging trend (up 0.3 per cent in both June and July).

It may prove possible to reach the target (set out in the letter of intent to the International Monetary Fund for the 430m special drawing rights standby credit last spring) of a 13 per cent rise in consumer price between March, 1977, and March, 1978, compared to one of 22 per cent in the preceding 12 months.

Similarly the balance of payments has improved, with the trade balance moving into surplus in June, thanks to a fall in import demand and a sustained level of exports. The target here in the IMF letter of intent is a modest current account surplus of 500,000 lire (€33m) for the 12 months ending next March, compared to a 1976 deficit of 2,380,000 lire (€1,587m).

Foreign indebtedness, admittedly high, has however been checked by growth in the foreign exchange reserves to a record level. This, in terms of figures, offers cause for satisfaction. But such is not the case with the public sector deficit, which gave rise to a pre-occupied letter this summer from Mr Alan Whitmore, the IMF negotiator, to Signor

Gastano Stanimati, the Treasury Minister.

Mr Whitmore criticized the Government's sloth in tackling a number of problems which, he said, comprised any lasting improvement in the economic outlook. Among his recommendations, he suggested tighter budgetary procedures and greater attention to new spending commitments, a block on recruitment of government officials, the elimination of unnecessary government agencies, and a stop to a new borrowing by public health institutes.

The parties programme is drawn up within the IMF

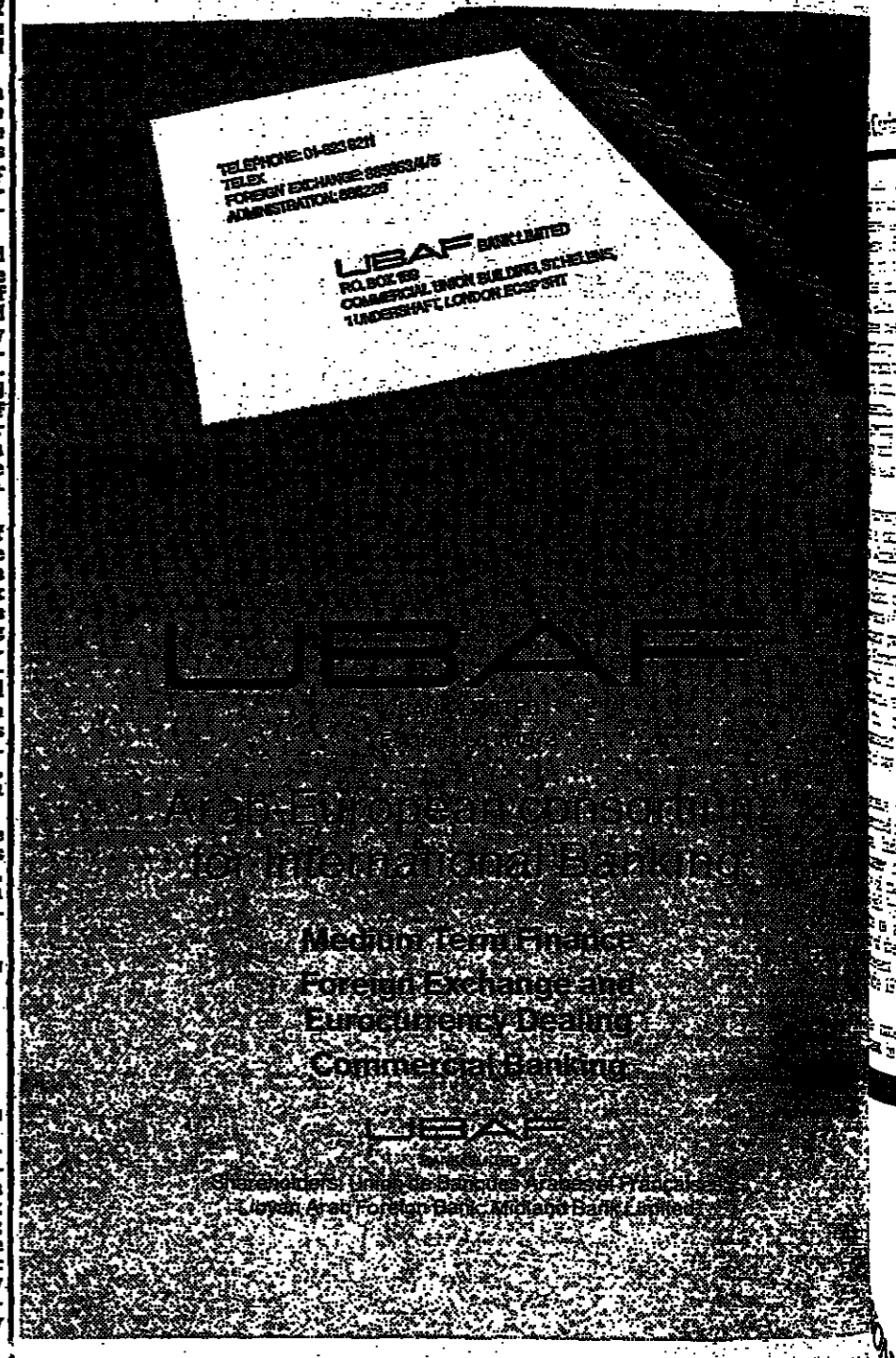
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Consolidated Balance Sheet of the STET Group

at 31-12-1976 (in billion lire)		at 31-12-1975 (in billion lire)	
Assets		Assets	
Fixed assets:		Fixed assets:	
—Telecommunications plants	6,945.8	—Telecommunications plants	6,945.8
—Other	1,338.3	—Other	1,338.3
	8,284.1		8,284.1
Warehouses	873.3	Warehouses	873.3
Securities and shareholdings unconsolidated	21.2	Securities and shareholdings unconsolidated	21.2
Treasury	84.0	Treasury	84.0
Loans to banks	775.4	Loans to banks	775.4
Users and clients	513.8	Users and clients	513.8
Sundry credits and miscellaneous items	10,352.9	Sundry credits and miscellaneous items	10,352.9
	10,352.9		10,352.9
Liabilities		Liabilities	
Net Capital:		Net Capital:	
—Portion attributable to STET	1,000.0	—Portion attributable to STET	1,000.0
—Portion attributable to third parties	1,000.0	—Portion attributable to third parties	1,000.0
	2,000.0		2,000.0
Sinking Funds	1,000.0	Sinking Funds	1,000.0
Social Security Funds	1,000.0	Social Security Funds	1,000.0
Long term debts	1,000.0	Long term debts	1,000.0
Medium term debts	1,000.0	Medium term debts	1,000.0
Short term debts	1,000.0	Short term debts	1,000.0
Contractors	1,000.0	Contractors	1,000.0
Sundry debts and miscellaneous items	1,000.0	Sundry debts and miscellaneous items	1,000.0
	1,000.0		1,000.0
Economic Account		Economic Account	
Costs		Costs	
Raw materials, semi-finished and finished products—initial stock	544.7	Raw materials, semi-finished and finished products—initial stock	544.7
Labour costs	1,143.1	Labour costs	1,143.1
Expenditure for purchases and services	312.5	Expenditure for purchases and services	312.5
Redemption	437.9	Redemption	437.9
Financial expenditure	108.5	Financial expenditure	108.5
Taxes and rents	35.1	Taxes and rents	35.1
Allocations to risks funds and various	18.7	Allocations to risks funds and various	18.7
Other expenditures	3,415.7	Other expenditures	3,415.7
	5,608.2		5,608.2
Profit	3,415.7	Profit	3,415.7
	3,415.7		3,415.7

The foregoing account and figures give a full and detailed picture of the size and shape of the STET Group. The scale of operations involves 10m telephone subscribers, and 15m handsets, which, in a world context, puts Italy in sixth position. This accounts for an annual total of some 12,000m calls, mostly automated, both within the country and to the 40m or so sets in five continents.

These results have been achieved by an outlay in plant, buildings and installations for a total of Lit. 8,852,000m, made up of fixed assets valued at Lit. 8,279,000m and stocks of Lit. 573,000m. The 1976 balance sheet, showing Group profits of Lit. 44,000m after provision for amortisation of Lit. 313,000m, is striking evidence that the Group's activities are always governed by overriding attention to the criteria of profitability.

UK economy

Financial improvement but underlying problems remain

by David Blake

The past year has seen a most remarkable turn-round in Britain's financial position and a steady deterioration in the country's underlying economic base. It is the financial improvement which has attracted most attention, partly because the depths of the crisis last year were so shocking.

It is, after all, only a year since the Chancellor and the Governor of the Bank of England had to call off their visit to the annual meeting of the International Monetary Fund because they faced a raging foreign exchange crisis at home. This year, they can bask in the glory of reserves at a record level, the pound under constant upward pressure and the certainty of a surplus on the current account of the balance of payments next year.

In 1976, when Mr Healey saw the officials from the International Monetary Fund in London he was seeking a loan which was vital to the survival of his government; this year there is a serious possibility that the fund may be paid back early.

It is on the external side that the changes have been most dramatic, but there have also been startling shifts in the domestic financial markets. Interest rates have fallen sharply over the year. In the near-panic of the summer of

1976 the Bank of England's minimum lending rate was pushed up to its highest level at 15 per cent.

This August, it went to the lowest level it has reached since it was invented in 1971. It now stands at 7 per cent. Sales of government debt have been enormous through 1977 as the Government has tried to mop up foreign money flowing into Britain; in 1976 a flight of capital made it harder to sell government debt, creating further worries about the future.

Financially, the year has really been a re-run of 1976 in reverse. Whereas 1976 was marked by a collapse of confidence, pushing the financial markets into despair, the present year has seen them gripped by euphoria.

The one thing which has not changed is the market's disdain for the policies being pursued by the authorities. Whereas last year the general feeling in the City was that the Bank of England had shown its feeble-mindedness by trying to intervene to stop the pound falling to its natural rate of below \$1.60, this year the view is that the Bank is even more feeble-minded in not allowing sterling to go up to its natural rate of more than \$1.80.

The Treasury comes in for similar disdain for not allowing interest rates to fall even faster than they have done. Thinner-skinned officials than those usually found in Great George Street might think it a bit harsh that they receive all the criticism for

weaknesses in dealing with the problems of success but none of the credit for the success itself.

For the stabilization programme in the financial markets has been a success, and it is important to remember now that when it was announced many in the City and in foreign exchange markets said that the terms agreed with the International Monetary Fund were not tough enough and would not restore confidence.

The Government can thus be forgiven for being a little less quick than its critics to believe that it could afford to stop worrying about a repeat of last year's disasters, upsetting any hope it might have of survival.

That prospect now seems to be a distant one. The only thing which would plausibly cause it against a background of large surplus on the current account would be either a genuine wage explosion or a total collapse of all the restrictive policies the Government has taken.

The first seems to be a more realistic possibility than the second. The failure to reach an agreement between government and unions over a new round of pay restraint was a severe blow to the Government's hopes of bringing down inflation. Most experts would now expect that wages will grow at well over 10 per cent a year for the next year.

With little real growth in prospect in current policies, there is only one thing which can happen to what

Mr Healey calls the "real economy" as a result of that. Unemployment, which has constantly been setting records this year, will rise again.

This conclusion is inescapable, whether one accepts a monetarist or a more conventional Keynesian view of the way the economy works. Monetarists would point to the fact that wages are rising more rapidly than the money supply and say that workers are pricing themselves out of jobs. Keynesians would look at the fact that once the recessionary element has been taken out of estimates of the government deficit, the current stance is highly restrictive. In either case the prospect is of a slow and steady unemployment rise as new entrants to the jobs market find that there is no work for them to do.

It is this picture which is likely to dominate government actions in the coming months, just as the financial crisis dominated them in 1976. Already there has been some relaxation in the Government's stance and more seems likely to be on the way. The bad figures for output, investment and for employment all bring a little closer a retreat from the hard-core austerity policies of the recent past.

These did not begin at the time of the IMF visit, though that helped to give them a new impetus, as did the collapse of confidence in the City. They began a considerable time before when it became apparent that the world was not going

to move smoothly and surely out of recession in the period after the Opec price rise.

Many of the shifts which were begun then are likely to continue. The shift from the public to the private sector has been very marked and is unlikely to be fully reversed, if it is reversed at all. The increased concern about monetary aggregates will not vanish overnight either. We are not likely to see the sort of huge growth which occurred during the Heath Government for many years, if indeed it ever comes back again.

But we shall almost certainly see a slight steer on the rudder back towards faster growth. British economic policy since the war has really been all about trying to shuffle inadequate resources around in a society which seemed incapable of resolving the problem by expanding its resources.

The second half of 1976 and the first half of 1977 saw a huge shift away from living standards in Britain and towards improving the external balance; the second half of this year has already seen a substantial improvement in living standards which will go on well into 1978.

But the underlying problems of industrial inefficiency and under-investment remain. Until they are solved, it would be wrong to believe that the British disease has been cured by a few months' good performance in the foreign exchange market.

British industry

Hopes of limited reflation to end stagnation

by Maurice Corina

With 6 per cent of the national labour force registered as job seekers as unemployment reached a level of 6.5 per cent, no one can be surprised that industry's nerves are on edge. Thousands of jobs have been protected by temporary subsidies in the expectation of economic revival and, meanwhile, the potential work force keeps growing apace: more women and young people join the search for employment.

Industrial recovery was rumoured, but it has been delayed. Now Whitehall is jangling with expectations of a limited reflation after several weary years of recession and stringent pay and price controls. Abatement of the rate of growth in prices seems to have come too late to contain the pent-up demands of organized labour at restoration of pay differentials.

The tight squeeze on the economy has resulted in stagnant production. Indeed, in the second quarter of 1977 the annual rate of manufacturing actually fell by 6 per cent in volume to a level well below that of the three-year period. Present output compares with the 1970 performance.

At the same time, new capital investment in manu-

facturing which together with exports had been allotted a central role by the Government in heading Britain's economic recovery has been proving to be a deal weaker this year than had been predicted.

Growth of capital expenditure has been running somewhat below the levels of the main surveys which monitor forward spending. A jump of 15 to 20 per cent in modernization, which had been forecast, now looks like becoming only 6 to 10 per cent and in the first half of 1977 the annual rate pointed to an even lower rate, just below 3 per cent.

This is worrying, for exports and private manufacturing investment were the only two components of aggregate demand within the economy that the Government's advisers expected to expand this year. The International Monetary Fund was assured of substantial new investment for recovery. Indeed, one of the reasons given for the reduction in public spending had been to make room for the modernization of British industry, which could then take advantage of the years of North Sea oil.

None the less, there are signs of both reorganization and a better quality of investment. It is not so much the quantity of capital spending that counts, rather the quality and where it may be

concentrated. The delays between taking decisions and commissioning an investment project are long.

Some reorganization has been stimulated by the Government's industrial strategy exercise, whereby teams of businessmen and trade unionists have worked with civil servants from the Department of Industry and the Treasury, with help from NEDD on the priorities for change. There has been plenty of talk. None the less, a few reforms of policy and actual investment schemes have resulted.

Industrial policy is now at the heart of economic management and all the main political parties are preoccupied with the problems of reforming industry. There is no shortage of big issues, both in the public and private sector.

In the private sector, the developing argument over industrial democracy has united industrialists in common cause against a government that appears to be hesitating after receiving the report of the Bullock committee, which was divided over the question of how to increase worker participation.

The issue of providing a legal framework for allowing workers to climb into the boardrooms is potentially damaging for government-industry relations. It might even threaten the present

quite remarkable cooperation evident in the industrial strategy exercise, such is the strength of feeling among established directors who claim their unions are not as anxious as the Government to sit on boards.

In the public sector there will be experiments with industrial democracy in the industrial obligations of the Post Office and the British Steel Corporation, but the situation has been confused this year by material prepared for a White Paper on the structure and statutory financial obligations of the nationalized industries. The state boards have already risen up as one against the idea, put forward by the National Economic Development Office, for passing control of policy to policy councils.

The state industries have just emerged from a bleak period of artificial pricing, whereby they had been instruments of economic management. This year has brought a restoration of profitability to most corporations, so the steel industry—a barometer of industrial performance—is in deep trouble, fighting against impossible odds for restricted markets and burdened by debts and interest payments necessary for safeguarding essential investment.

New state corporations have been created, for aircraft and shipbuilding, and both start life in the toughest possible conditions. Shipbuilding is in a parlous state, as orders are completed and competition for replacement business gets fiercer.

NEB struggling to help British Leyland

Uncertain of its future when the Government is propped up by a minority party in the National Enterprise Board, whose chairman resigned this year and handed over to Mr Leslie Murphy, former merchant banker, the Conservatives are pledged to abolish the NEB which is struggling to hold British Leyland on a stable course towards better times when Japanese and European competition in the home market has been evidently successful.

Government aid to Chrysler continues, too, but without the involvement of the NEB, whose hands are full enough with Leyland and its statutory duties to promote investment in potential winners.

This year has seen the onward march of state intervention, not so much by the introduction of dramatic new measures but by the steady application of legislation from previous years. The advent of the Employment Protection Act and reforms of other labour legislation has imposed complex new responsibilities on management.

A host of new industrial aid schemes have been introduced and armies of executives now keep an eye on what Whitehall has to offer by way of financial incentives and grants. Changes in company law appear to be on the way.

Private industry is under increasing pressure to modernize, even if the nature of intervention by govern-

ments remains the subject of deep argument. It is not easy for industrialists steeped in the traditions of established directors to take to tripartite management of the economy, yet a growing band of industrialists has been prepared to think more carefully about the nature of industrial planning, particularly if the traditional conflict of labour and capital is to be reduced.

What has been the most significant feature of the past few years of stress has been the way in which unions and managements have cooperated, with the strategy exercise holding them together. The CBI and the TUC may remain in some difficulty in reconciling their views when each organization contains powerful people with entrenched ideas, yet they are still co-operating whenever and wherever they can.

It is, indeed, a sign of the times that the CBI is about to stage its first annual conference, a kind of mock TUC congress where businessmen can rostrum and show whether the policy document, *Road to Recovery*, carries support.

The CBI has produced a document which recognizes a role for tripartite management of the economy and a degree of state assistance when the formation of private capital appears insufficient for modern investment on the scale required for Britain's future needs. The document says of the business community's willingness to cooperate in planning for better performance: "The key principle is that such planning and government action arising from it should try to assist not to supplant the market economy."

Freedom to manage within an agreed framework is also the cry of the nationalized industries.

Industrial policy has become the most dominant characteristic of modern government in the 1960s and 1970s. In 1977 a Cabinet "think tank" team was looking at the problems of reorganization of boiler and generator manufacturing, almost a symbolic confirmation of the change in political preoccupations. It has taken union leaders and senior industrialists into the very heart of government. Every day Whitehall is crossed by teams of union people or business deputations pressing their cause.

The one thing that has been absent has been a deep-seated conviction that industry is set on an expansionary course. Companies have been concerned first with survival through unprecedented inflation and then with a restoration of profitability at a time of this order books. The current year is ending with uncertainty about the political administration, still depressed world market prospects, a cracking dam against inflationary pay claims, and under-utilized workforces even where slumped down. Growth is still around that proverbial corner, says the Chancellor, who has a firmer pound and a tight rein on money supply while industry sweats its way towards 1978.

The author is Industrial Editor, The Times.

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UK labour relations

Unions face second front

by Paul Routledge

The periodic uncertainty that grips industrial relations and the role of the trade unions in Britain is once again manifesting itself after a year of diminishing calm. The favourable climate created for the unions since 1974 is under attack from within and without. External reaction against the closed shop and trade union power was slow in coming, but is now reaching full tilt; and the restiveness among the active rank and file over pay restraint threatens the internal stability of the social contract, that unique political partnership originally launched as an election-winner.

Rumblings of discontent over pay were audible last summer among the Trades Union Congress closed shop for a second year of voluntary pay curbs. That revolt was ruthlessly quelled by the TUC General Council, whose expert negotiators found a face-saving formula. It was not a particularly savoury episode, but it showed that the TUC meant business and no other union dared to risk such fraternal disapproval by trying to breach the 5 per cent limit.

No, the revolt, when it came, arose on the shop-floor, in a beset, scarcely political manner. British Leyland toolmakers brought their company to the brink of shutdown over eroded differentials, and their long unofficial strike was copied by the Heathrow engineering maintenance men and electricians at the giant Port Talbot steelworks. All three stoppages ended without a public breach of the bargaining straitjacket of Phase Two, but they did have a profound influence in pushing the unions away from a formal phase three. Apart from pay, the unions had other worries on their

minds. Unemployment, gradually rising and becoming more deep-seated, dominated the economic thinking, and the TUC asked in its annual *Economic Review* for a package of measures in the Budget that would cost £2,370m and produce an estimated 250,000 jobs by mid-1978.

The TUC conceded that its package would conflict with the Government's letter of intent to the International Monetary Fund, to argue that Treasury estimates of the public sector borrowing requirement were out by £1,000m, and that anyway the maintenance of the social contract was "just as important, if not more than, right monetary targets".

Mr. Healey did not listen to this economic heresy, and his Budget was greeted with public reservations and private statements such as "appealing" by union leaders. It was not an auspicious start to the talks with the TUC on what was to follow Phase Two when it expired on July 31. The unions dragged their feet, and ministers dithered while the traditional early-summer round of union conferences piled up policy decisions against a phase three.

But while they were unhappy about the policies of "cheek" Labour government, union leaders were even more apprehensive about the prospect of a Conservative administration headed by Mrs. Thatcher. When, in late March, the Opposition sought to turn Mr. Callaghan out by a vote of confidence in the Commons, the unions very quickly rallied to his support.

In a statement, the TUC Labour Party Liaison Committee said the joint efforts of unions and government sustained a sense of direction for Parliament and the nation, and Mr. Len Murray, general secretary of the TUC, declared roundly: "We want this present Government to stay in office to do the job it has begun."

The unions' unremitting support for the Labour Cabinet goes a long way towards explaining their touchiness over the reopening of contact with Tory Party leaders. For several months during 1976, Mr. James Prior, the Opposition frontbench spokesman on employment affairs, had been talking to members of the general council and to Mr. Murray himself. The ground was laid for a top-level meeting between Mrs. Thatcher, her senior shadow cabinet colleagues, and the six-man TUC team on the National Economic Development Council, its "Neddy six" who do most of the politicking.

Some initial TUC reluctance to find a vacant day in the diary held up the meeting until January this year, and when it took place it was, by all accounts, a rather nervous and frigid affair, although the politicians described it as cordial and reasonable. The Conservative public image as union-bashers who enjoy nothing better than a good confrontation, certainly felt that as a propaganda exercise, it was successful.

That view was shared by some left-wing critics of the venture on the general council, but Mr. Murray rode the criticism by disclosing that the unions had told Mrs. Thatcher they did not want an early election, and when it came they did not want her party to win.

Away from the political front, the labour movement was (like everyone else in industry) much exercised by the report of the Bullock inquiry into industrial democracy. The majority's recommendation that trade unionists should share power by being elected to company boardrooms as worker directors brought forth a howl of indignation from management and Opposition but it drew united reaction from the general council.

The Bullock inquiry had been set up against the TUC's wishes though with some of reference loaded in its favour, and the first response was to call for legislation implementing the majority report on the statute book within 12 months.

The majority view was that boards of management in Britain's 738 companies employing more than 2,000 workers should be thrown open to elected trade unionists, putting the relationship between capital and labour on a new basis. Mr. Murray said the year-long inquiry ought to shorten the time for consultation with interested parties, and ministers should get on with legislation.

However, as on every other subject, there are hawks and doves on industrial democracy in the general council. On this issue, there is an unusual alliance of the left and the right. Hard-line socialists see the Bullock formula as a means of propping up capitalism by enlisting the managerial collaboration of the trade unions, and the right-wingers, such as Mr. Frank Chapple of the electricians and Mr. David Barnett of the workers, who want the unions to stick to their own side of the table. After this month's congress it is clear that the right faction is winning, and that laws compelling companies to accept workers in the boardroom will not be the model for industrial democracy in this country.

This is also a year in which the basis of trade union law was challenged. The challenge came with the Grunwick dispute, where a strike by 70 immigrant workers has shaken the TUC's confidence in the recognition provisions of the legislation enacted since 1974. The National Association for Freedom in supporting the Grunwick

boss, Mr. George Ward, who clearly will not recognise the union at any price, have also angered union leaders.

Union recognition, thought to have been legitimized once and for all, is now once again a matter of political controversy, with much heat being generated about the closed shop. And the Government's commitment to amend the law so that the right to strike is given to Post Office employees adds a further dimension to the argument.

There is a detectable feeling in the Conservative Party that trade union power has been given too much rein over the past three years, and that it must somehow be curbed.

The absolute right not to have to join a union, which was a fundamental of the 1971 Industrial Relations Act, is being revived, and Mr. Prior is uneasily treading a tightrope between the economic and political realities of getting along with the unions and his own party's strong attachment to individual freedom.

What is certainly true is that the power of the unions and their role in society will be an important issue at the next general election, whenever it comes.

In the meantime, ministers are crossing their fingers and hoping that the TUC's commitment to the 12-month rule and an orderly return to free collective bargaining (by which the Prime Minister means "moderate" settlements this winter) will be as effective in curbing pay aspirations as Phase One and Phase Two of the incomes policy.

If the Government has got its sums right, wage settlements of less than 10 per cent will bring the rate of inflation down to single figures next year. They might then be able to look the electorate in the eye with a little more confidence.

The author is Labour Editor, The Times

Banking

Rosy picture dimmed

by Ronald Pullen

Heavy strains have been placed on the banking system over the past year. They have stemmed chiefly from the Government's need to push up interest rates to unprecedented levels in order to make its gilt-edged sales attractive to the investing public, to cover the public sector borrowing requirement. Lately its headroom is allowing them to fall just as swiftly.

The Government has also used the banking system to maintain a firm grip on the economy, which appeared to be careering downhill to disaster, before the agreement on the International Monetary Fund Loan and the lifting of the sterling balances' crises.

Nevertheless, by the admittedly narrow test of profitability, the clearing banks in particular and the merchant banks, too, in their chaise longue, have shown an extraordinary ability to overcome the outside pressures.

The further sharp fall in interest rates since the middle of the year coupled with no real sign of any rise in loan demand threatens to change that rosy picture. And if, as many are hoping, the economy is now entering an era of lower interest rates, the banks' balance sheet of payments surpluses for some years to come, the outlook for bank profitability in the face of remorselessly rising operational costs is hardly being thinking about.

No sooner had the banking system steered itself

clear of the worst dangers threat to the high street of the 1973-75 property collapse and secondary banking crisis—the ripples of which have worriedly close to the shores of at least one of the clearing banks—the clearing banks found themselves embroiled in a crisis of a rather different kind.

A little over a year ago the Labour Party's National Executive Committee revived one of the left wing's cherished notions of nationalizing the clearing banks, and also a merchant bank. Subsequently the proposal was adopted by the Labour Party conference for inclusion in the next election manifesto.

From the Prime Minister, who referred to the NEC proposal as an electoral albatross, from customers, who doubted if the service they would get from a nationalized bank would improve and from the bank unions, reception to the idea was uniformly hostile.

That did not entirely reassure the clearing banks, whose working party under Lord Armstrong of Sanderstead to fight nationalization still had a suspicion that the NEC proposal could be sprung on the public in the less rational atmosphere of a general election. So in an effort to kill the idea, the banks ran a £400,000 newspaper campaign during the summer to try to convince the public that they had in no way let British currency down by enacting it of funds.

Meanwhile, to take some of the heat out of the left-wing pressure the Government has pressed ahead with its potentially more serious

of control because of the amount of Treasury bills in public hands which could theoretically have been used to increase bank reserve assets. Also, the restriction on the use of sterling in finance trade between third countries had threatened to switch much of the banks' funds into the domestic market.

In its early days the case bit quite deeply but, a during the year it has been steadily eased to avoid any liquidity squeeze. The were ended—ironically just at a time when the case had started to restrain clearing bank lending to a small extent.

Despite those constraining the clearing banks have still managed to produce another handsome increase in the first half profits for 1977.

The clearing banks are starting to call into question the logical basis of the branch network system. Midland has gone so far as to streamline some of its operations in the North-East. The banks are investigating the introduction of computer systems to do away with those cheque books entirely.

Otherwise they may be overwhelmed by the she volume of paperwork in 1980s.

Electronic fund transfer is still no more than a gleam in the clearing banks' eyes, and in the meantime, it is clear that they are going to need to lay even more emphasis on overseas diversification to offset the pedestrian outlook at home.

The author is Banking Correspondent, The Times.

Commodities

Restless producers get little satisfaction

by Wallace Jackson

Violent variations in the price of coffee, disagreements in the tin council, a deep depression in the sugar market have been features of the commodity markets in the past year.

The year has also been notable for a growing restlessness among producers of both metals and "soft" commodities (coffee, cocoa, sugar and so on) about the prices they receive for their commodities and the attitude of the consumer nations towards attempts to ensure that the various markets are run in an orderly fashion.

Little progress has been made, however, despite much activity by the United Nations Conference on Trade and Development and much discussion by such bodies as the Council of Copper Exporting Countries and the Latin American coffee producers.

Probably the most heated discussions have been within the International Tin Council, which has a totally depleted buffer stock and so cannot regulate the market. Bolivia, the second largest producer, is demanding adjustment of the "floor" and "ceiling" prices under which the buffer stock manager operates, to what it regards as more realistic levels.

Bolivia has also demanded that the council's voting system should be changed to fit the influence of Malaysia, the major producer, and the United States, the major consumer, and that steps should be taken to compel the consuming nations to contribute to a doubled buffer stock instead of the present system under which producer contributions are compulsory and consumer ones voluntary.

When the latest tin agreement was signed, Bolivia adhered only provisionally, in May 1976. It delayed ratification to the last moment, this June, and has since made it clear that it might withdraw.

As Bolivian withdrawal would create great difficulties for the pact, the council decided to review its buffer stock price range at six-monthly intervals and, as a consequence, in July both floor and ceiling prices were raised.

But the new levels did not satisfy Bolivia, which has again threatened to leave despite a statement by Mr. Edgar Lal, the executive chairman of the council, that although the present method of adjusting the price range was an improvement on past practices, the method "could and should be improved with experience".

The major tin producers have for some time had an appreciative eye for the panel operated by the Organization of Petroleum Exporting Countries and a movement towards a similar agreement between Malaysia, Bolivia, Indonesia and Thailand is not impossible.

But in deciding what to do next, Bolivia will have to pay heed to its private mining sector, which is opposed to withdrawal from the tin agreement, on the ground that national mining would be jeopardized.

Coffee is still dominated

by Brazil's low stocks and production because of the 1975 frosts.

An acute shortage of ready coffee brought the price from about £2,000 a tonne a year ago to a peak of £4,175 in March. Since that time there have been sharp fluctuations, with the present level about £3,000 a tonne.

Prices have been held back from peak levels because world consumption has fallen and for long periods the roasters have held back from the market, relying on stocks to feed a depleted retail market.

This has caused the producers, led by the Latin Americans, to seek means of "stabilizing" the price, although there has been an assurance from the president of the Brazilian Coffee Institute that an Opec-style cartel is not envisaged.

Brazil is determined not to lower either its minimum export price of \$320 a 60-kilo bag. Studies are being made of a scheme to provide exporters with cash aid to help them to weather

the recession in export sales.

Inspired by Mexico, the Latin American producers have persuaded the International Coffee Organization to examine ways of setting up a stabilization fund to finance a world coffee reserve stock.

The sugar market is depressed—with the price ranging from about £130 a tonne at the start of the year, touching £154 in April, and falling to about £110 in the summer.

A heavy surplus of supplies has overhung the market during the period. Hopes are high that a new international agreement can be negotiated and a second session of the negotiating commission has been taking place in Geneva.

The cocoa market was overshadowed for most of the year by an acute shortage of readily available cocoa and fears that the main 1977-78 African crops would be poor.

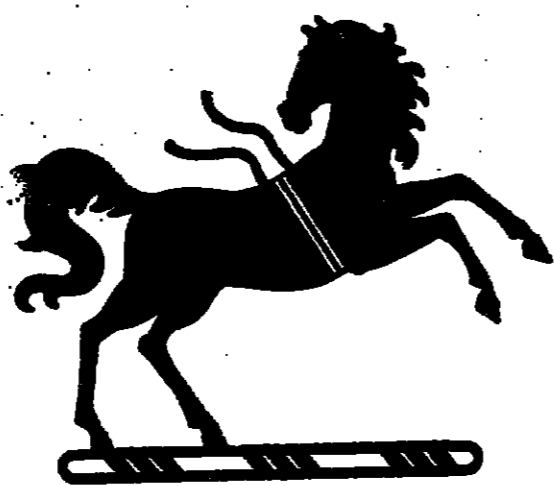
Prices rose steadily from about £2,000 a tonne a year ago to a peak of £3,400 in July. But since then the shortage has eased, stocks

have increased and fears poor crops have been allayed with the result that the price has gone back to about £2,800 a tonne.

The forecast is that it will fall even lower, as a result of a fall in prices in the United States. The Netherlands and Brazil. Copper prices have slipped from the middle of a tonne a year ago to upper £600s. This has been caused in part by speculative liquidation and absence of consumer demand. No early rise is expected.

In July the report of House of Lords committee on commodity prices published and in it was expressed about the stalled flow of new and tin commodities as in against inflation, cost and exchange risks.

The committee said much of the increase in activity was from investment with little relevant concern and their buying might be much influenced by a strongly influenced rumour that by the analysis of future price continued on facing



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Opec

Secret talks may avoid price split

by Roger Vielvoe

Over the next three months officials and ministers from the Organization of Petroleum Exporting Countries (Opec) will be engaged in a series of behind-the-scenes negotiations in an attempt to reach some agreement on oil pricing policy before the organization meets in Caracas on December 20 to fix oil prices for 1978.

The organization is anxious to avoid another slightly split in its ranks such as occurred at the price-fixing meeting last December when Saudi Arabia and the United Arab Emirates refused to accept the majority view of prices and for the first six months of this year offered crude that was 5 per cent cheaper than supplies from the other 11 Opec members.

Even sounding out the opinions of members is no easy task simply because outside the Middle East, the membership is scattered in Africa, South America and the Far East, and communications with some of them is uncertain. Using these preliminary soundings to try to temper the views of the extremists before the Venezuelan meeting begins will be even more difficult.

Opec remains split into two camps. The moderates led by Saudi Arabia feel that prices should be set in line with prevailing world economic conditions and their opponents, principally Iraq and Libya, want increases almost regardless of any consequences.

This basic difference of opinion could be felt at Opec's mid-year meeting in Stockholm where the emphasis was on unity after the end of the divisive two-tiered pricing system. Oil prices were not on the agenda but the prospects for December's meeting dominated everyone's thinking.

After the meeting Saudi Arabia's delegate, Shaikh Ahmed Zaki Yamani, said he did not visualize the world economy being strong enough to withstand another oil price rise at the end of this year and the prospects for a freeze on prices to continue throughout 1978. Similar views were also expressed by Dr Jamshid Amouzegar, then Iran's delegate to the conference before his elevation to the premiership. He said the state of the world economy would be the critical factor in fixing prices in December and he

did not rule out the possibility of prices remaining frozen throughout 1978.

Previously Iran has taken a more militant view on prices, but there is now a different mood. In the past, Dr Amouzegar said, "we have noticed that when we raised the price of oil by 10 per cent, we had to pay 12 per cent more for the goods we import, so in the final analysis we are the losers".

All the signs at the moment are that Opec will have great difficulty in increasing prices at the end of the year. There is at present a massive glut of oil on world markets caused mainly by slackness of demand in the principal industrial consuming countries coupled with an increasing volume of oil from non-Opec sources.

The North Sea is contributing close to 1,500,000 barrels a day and in August the first oil began to flow from the Trans-Alaska pipeline. By March next year the Alaskan flow is scheduled to reach 1,200,000 barrels a day.

Mexico is also beginning a crash programme to develop its resources. As oil from these non-Opec sources arrives it automatically displaces imports, mainly from the Middle East, and this oil has started to arrive at a pace which the industrialized countries are once again failing to produce the upsurge in demand that had been forecast.

Increased industrial activity combined with a hard winter would probably at this stage be insufficient to provide the sort of rises in demand that many Opec experts feel is necessary before the organization can move prices ahead once more. Oil stocks in Europe and the Middle East are low and the oil companies and traders will want to realize some of their investments that are tied up in this oil before asking for more Opec oil.

The only crumb of comfort for the moderates within Opec is that the glut of oil while annoying in the short term, will certainly not last more than 18 months to two years and that in the early 1980s demand for crude oil is expected to overtake the available supply. From this point it will be market forces and not Opec that set the prices.

As one Opec official pointed out in Stockholm, consumers in the industrial countries may find that Opec was kinder to them than the free market will be. It is by no means certain

that Opec will be able to avoid another split over prices in December. In Stockholm, Iraq and Libya made it clear they wanted higher prices for 1978, and pointed out that failure to increase prices and an extension of 1977 prices throughout 1978 would mean that for 11 of the 13 Opec members there would be no increase in their oil revenues since 1976.

There is a certain irony in Iraq and Libya leading the call for higher prices during a period when supply is exceeding demand. During 1975 when a similar situation emerged, Iraq in particular was active in giving under-the-counter discounts so that demand did not decline.

If Iraq and Libya continue their opposition to a price freeze at 1977 prices throughout 1978 they could find themselves in considerable difficulties. Two medium-sized producers offering oil at higher prices than the remaining 11 members is a completely different proposition from two large producers offering cheaper oil than the remaining 11 as happened after the Doha meeting last December. Opec sources feel that as long as Iran and Saudi Arabia can agree on prices it will be difficult for any other members to go it alone.

The two-tier system never produced the rescues in the oil market that had been predicted. With Saudi Arabia capable of pushing its production from a December ceiling of 8,500,000 barrels a day to more than 11 million barrels it was felt that this provided sufficient leverage to force the 10 per cent to reduce their prices or lose a massive market share that would more than offset the increased incomes that the price rise had produced.

In the event, Saudi Arabia's production rarely exceeded 10,500,000 barrels a day during the first six months of last year. Bad weather at the export terminals, technical difficulties in building up production rapidly, and a disastrous fire, all conspired to keep down exports.

Oil was not noticeably cheaper in the consuming countries although the four American oil company partners in Aramco who had access to the bulk of the cheap oil, did well from the advantage the Saudis gave them.

The author is Energy Correspondent, The Times.

Saudi Arabia

Vast surplus seen as temporary liquidity

by David Shirreff

One of the most influential countries in the world, Saudi Arabia, has the fixed assets of a city the size of Nottingham. That is why the world's biggest oil exporter has been reluctant to give away too much of its apparently huge surplus revenues in soft loans to developing countries. "We don't have a surplus", said Mohammed Ali Aba al-Khatib, the Finance Minister, said in May, "we have a temporary liquidity".

The Saudis disappointed the Western industrial nations by their offer of only \$2,500m towards the International Monetary Fund special Western Europe Year 1977 has been a year in which Saudi Arabia found a voice in other ways, as an important influence towards moderation in the Middle East and in the world.

It owes much of its coherence abroad to the success of its development programme at home. The second five year plan launched in March 1975 goes on with little modification in scale. Port congestion, which dogged the import of vital infrastructure goods in 1976, was beaten at the turn of the year; inflation appeared to have been reduced from last year's 35 per cent to 25 to 30 per cent and there was evidence that restrictions on rents, hotel charges and food prices were beginning to bite.

Western firms were shocked by the Saudis' sharp reaction to what the latter regarded as excessive mark-ups on bids for electricity and sewerage contracts. The Government cancelled the tenders and went to countries of the Third World—Pakistan, India, South Korea and others—to find a fresh source of skill and manpower. Although the supply of much of the capital goods will still have to come from the West, the point was made

and the pricing of bids has generally been tightened. The feasibility of the development plan's big industrial programme—including the tapping and distributing of 1,600 million cu ft of liquid natural gas a day, the construction of two industrial coasts at Jubail and Yanbo, the building of five petrochemical complexes, a steel plant and an aluminium smelter—is not debated publicly: the projects are simply going ahead. The Saudi Basic Industries Company (SABIC) is handling the Saudi side of the industrial projects which are equal joint ventures with foreign firms.

Individually, Mobil, US Shell, Dow Chemical, Exxon and a group of five Japanese companies, including Mitsubishi, are half-committed to petrochemical projects. Korf Stahl of West Germany is studying the steel project and Southwire of the United States the aluminium smelter. Mobil and Exxon are also partners with Yacoco and Standard Oil of California in the Arabian American Oil Company (Aramco) which handles all but a fraction of the country's oil industry.

Aramco, 60 per cent Saudi-owned, is soon to become fully nationalized, but under the agreement the United States partners will still have a vested interest in exploration and production. As Aramco, they are heavily involved in constructing the gas-gathering and distribution network which is the backbone of the nation's industrial plans.

The Government is following a careful policy of asserting national sovereignty in some areas and encouraging foreign participation in others. In the banking sector, further steps have been taken towards securing a majority Saudi shareholding in the foreign banks.

The Banque de l'Indochine et de Suez has its local operations brought under Saudi control when it was transformed in May into the Saudi-French bank with a majority holding of 60 per cent developing on to Saudi ownership. It was the third bank in two years to undergo this process, the others being the National Bank of Pakistan and the Algerian Bank Nederland, which respectively became the Bank al-Jazira and the Bank al-Saudi al-Hollandi.

At the same time the Saudi Arabian Monetary Agency (SAMA) declared that all the other foreign banks in Saudi Arabia must be similarly transformed within a year. This will affect the British Bank of the Middle East, which already has plans to combine with the Bank of Ceylon, Bank of India, Bank of China, Bank of Iran, Banque du Caire, and the Banque du Liban et d'Orient-Mer.

This Saudiization policy, though severe, will allow foreign banks to spread operations beyond Jeddah where they had mainly been confined. Two bond issues of 150m rials and 100m rials on the Eurodollar market broke the bank embargo which SAMA had put on the rial as an international currency. This was not so much a change of policy as a graceful bowing to pressure from Bahraini markets.

The extent of SAMA's reserves, and where they are invested, is still not clear. A recent independence survey of \$62,000m already invested abroad. Oil revenues this year are likely to be between \$37,000m and \$40,000m, according to the 1977-78 budget at least \$11,000m of that will be surplus. It is clear that the biggest proportion of the reserves is invested in the United States, which is also where private Saudi investors are most keen to put their money.

By implication the Saudis have a strong vested interest in the American economy and the United States is a strong vested interest in Saudi goodwill. This is well illustrated by the visit of Crown Prince Fahd to Washington in May. In press reports of the relationship between the two countries, that relationship is stressed by the United States Saudi Joint Economic Commission which has been working in the kingdom since 1974, advising on social, economic, education, religion, statistics-gathering, scientific research. Most Saudi Arabia's military structure is given by the United States Army Corps of Engineers which is building ports, bases and military cities. Other industrial cities are involved in a smaller scale, but participation of the United States is unique.

Oil gives Saudi Arabia immense influence. Less the United Arab Emirates the Saudis kept the price from going up any 5 per cent in July, country's attempt to bring the market early in the year down from 10 per cent to 5 per cent, was moderately successful. exports were hampered by bad weather in the Gulf and then by a fire in the Abqaiq field. But the Saudis were enough to remind Opec and the industrial nations that the Saudis a medium through which they must communicate. The practical effect of keeping the oil price at a little more than \$10 a barrel was to enrich Saudi Arabia's oil companies. But country had made a stand and won a straw advantage in the search for Middle East peace.

The author is on the staff of the Middle East Digest.

Third World

Why the poorest got poorer

by Melvyn Westlake

The shocks delivered to the world economy during the 1970s have had very varied effects on the many Third World nations of Asia, Africa and Latin America. The poorest have been hit hardest. The less poor have suffered least.

This is in spite of the fact that the higher-income developing countries tend to depend more heavily than the poorer nations on oil and trade, and were therefore seriously affected by the higher petroleum prices and world recession.

Part of the explanation of how they were able to surmount these difficulties lies in their ability to tap the international money markets for loans. This enabled them to maintain their investment and avoid tearing up development plans.

In addition, many of the developing countries in the higher-income group adjusted quickly to the new economic situation, adopting tough monetary, fiscal and pricing policies.

For the poorest countries, the situation was very different. They are not credit-worthy enough to get international bank loans, and depend more heavily on the international trade of the West for official aid.

If it had not been for the improvement in harvests, after four years of drought in Africa and poor monsoons in south Asia, countries in these two regions—being among the very poorest—would have suffered even more than they did during the recession years of 1975 and 1976.

Even so, economic growth rates in sub-Saharan Africa and south Asia have dropped further behind those of the more fortunate placed Third World states. For most of these recent years did not seriously interrupt the growth trend that has now been maintained for a quarter of a century.

In many cases these growth rates were historically unprecedented, and exceeded expansion rates in the industrialized nations. Gross national product per head in east Asia, Latin America and the Middle East actually accelerated during 1970-75, reaching an annual average level respectively of 4.8 per cent, 3.7 per cent and 6.4 per cent.

Adas, over the same period, the growth in south Asia and Africa was only 0.5 per cent and 2.1 per cent. This divergence was even more evident in the 1960s but to a considerably lesser degree.

More generally, the steady rise in many commodity prices during much of 1976 helped to give Third World nations, taken together, a better year than in 1975. With world raw material prices rising faster than the prices of manufactured goods, the non-oil exporting developing countries saw an

improvement in their terms of trade—that is the amount of imported goods that can be bought with the earnings from a given volume of exports—which rose 4 per cent after a 13 per cent fall the previous year. For 1977, however, the decline in commodity prices could mean a reversal of the promising 1976 trend.

In other respects, too, last year provided encouragement for non-oil exporting developing countries. There was a decline in the aggregate deficit on their trade with the rest of the world.

The total current account deficit for these countries was US\$26,000m compared with \$38,000m in 1975. This year there may be a further although slight, fall to \$25,000m, according to projections made by economists

at the International Monetary Fund. However, this still remains three times greater than the aggregate average deficit in the years before 1973 when the oil price increased sharply and inflation accelerated in the industrialized nations.

It is, of course, appropriate that the developing countries run trade deficits so long as they do not become unmanageably large. As a group the Third World nations are making development investments substantially in excess of their own national savings.

In fact, because many developing countries were borrowing more money than they needed to use immediately, they enjoyed a sharp rise in their reserves of gold and foreign currency during 1976.

This means, in the eyes of experts at the IMF, that they should be able to finance another large deficit this year, as there is a fall in the value of foreign loans obtained from the higher interest rate market. The higher interest rate provides a cushion.

But the other side of the coin is the rising Third World foreign debt which continues to cause much concern. By the end of 1975 (the last year for which figures are available) the total amount of debt standing for 84 developing countries (including countries committed by interest agencies but not yet drawn) amounted to \$173,912m, or nearly 50 per cent higher than in the previous year.



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Iran

Harsh action brings results

Nicholas
Amming-Bruce

more work and effort to
ther with greater effi-
cy and coupled with
nasty", were the words
seen by Iran's new Prime
nister, Dr. Jemshid
Amuzegar to summarise his
binet's programme when
presenting it to the Majlis.
His statement shows just
w far Iran's development
icy has moved from the
igh growth as any coun-
try of 1974-75 in an
empt to check the stream
financial difficulties and
ysical blocks generated by
it policy.

Iran's financial position is
lthier than it was a year
ago. Harsh action to hold
on the growth in govern-
ment expenditure and more
careful budgeting have
helped to ease the acute cash
w position of 1975-76. The
nation has also been
ped by slower rates of
raff growth, reflected in
ise of only 15 per cent

in the country's import bill
during the last Iranian year,
compared with increases of
about 77 per cent in the two
previous years.

The main factor in Iran's
payments position is the
level of oil revenues. It was
a fall in oil revenues in 1975-
76 at a time of hectic and
expanding development that
was an important factor in
the financial difficulties of
the last two years. However,
they rose 8.4 per cent in
1976-77 to \$20,647m, well
over the amount allowed for
in the budget.

At present there is season-
al slack in the market
and oil exporters have been
lower than for the same
period last year. But a pick
up in demand is forecast for
the autumn and the budget
has made allowance for any
moderate fall in sales.

Iran's moderate stance at
Opec's Stockholm meeting
in July suggests that this is
a position it feels it cannot
afford to place in jeopardy
by dramatic moves to push
up the price of crude. The
country did not suffer from
the two-tier pricing system

that operated for the first
half of this year, helped by
Saudi Arabia's unwilling-
ness or inability to raise its
own crude output suffi-
ciently to keep all prices
down. But at this stage,
Iran has more to gain from
stable markets than from
higher per barrel revenue.

The National Iranian Oil
Company is seeking to
develop its own world mar-
kets against the day—which
cannot be deferred in-
definitely—when a new
agreement has to be
negotiated with the con-
sortium companies which
at present market most of
Iran's oil. The Govern-
ment needs to be able to
concentrate more on the
web of difficulties that is
holding back economic
development.

The Government has pub-
lished indicators for the last
Iranian year, again showing
substantial, if somewhat
slower, growth in the econ-
omy. Gross domestic pro-
duct is up 14.7 per cent,
growth in industry and min-
ing up 16 per cent, fixed
capital formation of

1,550,000m rials or 21 per
cent more than the previous
year.

But the change of cabinet
in August was in part
prompted by the appear-
ance of more of the econ-
omic maladies that have done
so much to trouble the econ-
omy in the past three years.

The latest and most pub-
licized of them has been the
widespread shortages of elec-
tricity, causing havoc in
industry as well as frequent
power cuts for domestic con-
sumers. As for other diffi-
culties experienced in recent
years, such as port congest-
ion, the lack of generating
capacity should be purely
temporary. In the mean-
time, however, many plants
have been forced to close
temporarily or to work
irregular hours.

High inflation has
returned despite tight price
controls on industry and
fiscal measures aimed at
curbing excess liquidity. The
consumer price index rose
about 16.6 per cent during
the last Iranian year, accord-
ing to official figures. But
the index for the month
ended May 21 was 2 per cent
up on the previous month
and 29.3 per cent higher
than the same month of last
year.

Inflation has struck hard-
est at housing, where prices
are up 47 per cent, helped by
shortages of construction
materials and property
speculation. Food prices rose
12 per cent over the year as
a whole but were up 19 per
cent in the second half of
the year.

Both factors are sympto-
matic of more deep-rooted
ills in the economy. Dr.
Amuzegar, in presenting his
Government's programme to
the Majlis, disappointed some
of them when he spoke of
"the relative decline in the
role of the private sector, ex-
cessive reliance on the
foreign exchange revenue de-
rived from oil exports, im-
balance between the growth
of urban and rural areas and

a premature tendency to-
wards a consumer society".

After three years' frenetic
development and then sharp
recession, Iran has not
moved appreciably closer to
overcoming the biggest single
challenge it faces: being
able to pay its way by means
other than oil revenues be-
fore they start to decline in
about 13 years.

Inflation in part reflects
industry's inability to keep
pace with the growth of dom-
estic demand for all types
of goods, ranging from cap-
ital equipment to consumer
items. Total domestic output
rose 17 per cent in the last
Iranian year, official figures
record, but that compares
with growth in aggregate de-
mand estimated at 29 per
cent.

Shortages of trained
workers and middle manage-
ment continue to be a
handicap and have not been
eased by a boom in the
construction industry, which
has drawn a disproportionate
amount of investment as
well as labour away from
manufacturing industries.

If the new Cabinet has a
clear idea of the economic
question that it faces it has
yet to divulge the measures
by which it proposes to
tackle them. Dr. Amuzegar
has identified inflation and
housing as priority issues
and has called for a wages
freeze to help deal with the
first, but he has spoken only
generally about the needs of
communications and services,
industry and agriculture.

A more detailed idea
should emerge with publica-
tion of the sixth five-year
plan (1978-83), due before
the end of the year. But it is
already apparent that the
emphasis will be less on
what oil revenues can
achieve for the country and
more on developing other
sectors to pay their way.

The author is on the staff of
Middle East Economic
Digest.

Opec outside Middle East

Cushioned against
effects of glut

Most Opec members out-
side the Middle East have
developed special links with
various consuming countries
to buy the particular grades
of crude oil they produce.
In this way they have man-
aged to cushion themselves
against the worst effects of
the glut of oil on world mar-
kets which is creating diffi-
culties for Middle East pro-
ducers.

Indonesia, which sells most
of its oil to Japan and the
west coast of the United
States, was among the 11
Opec members that sought a
10 per cent increase at last
December's price-fixing
meeting in Doha. But after
evaluating the effects of this
rise on its markets, it quietly
introduced a 7 per cent in-
crease without protest from
other members.

During the early part of
this year the price of the
high quality, low-sulphur
crudes produced in Nigeria
and North Africa went well
above the 10 per cent price
increase, in response to heavy
demand for this type of oil
in the North American mar-
ket. The glut has brought a
reduction in these premiums
but the light oil producers
are still not suffering the
same problems as their
counterparts in The Gulf.

Such factors have made it
easier for Opec members
outside The Gulf to plan the
growth of their economies.
Indonesia has seen oil pro-
duction rise slowly to a
record 1,700,000 barrels a
day, providing total revenues
of just over \$6,000m—nearly
70 per cent of the country's
foreign sales.

Indonesia is perhaps the
one Opec country where oil
has brought troubles as well
as substantial benefits. The
state oil company Pertamina
overspent its budget, running
up debts of \$10,000m—which
required costly rescue opera-
tions by the Government.

In an effort to raise cash,
Indonesia toughened its oil
exploration terms with the
result that foreign oil com-
panies have been reluctant
to enter new production-
sharing contracts with Perta-
mina. This could have
serious repercussions.

Indonesia is also rich in
non-oil resources. Freeport
Indonesia is expanding its
copper mining venture in
eastern Indonesia. PT Inco,
in which there is a large
Canadian interest, recently
opened an \$850m nickel
mining and processing plant
on Sulawesi. Rio Tinto-Zinc
recently signed an agree-
ment to search for and
develop mineral resources in
central Sulawesi, and
Japan is involved in a \$500m
aluminium smelter in
northern Sumatra.

But as in so many develop-
ing countries more cash has
to be poured into the basic
services to give new develop-
ments a chance of success.
Lack of facilities has forced
the Aluminium Company of
America to withdraw from a
bauxite development and
other nickel mining ventures
may be held up for the same
reason.

Venezuela's oil industry is
one of the oldest outside the
United States and the Soviet
Union. Traditional reserves
are being depleted quickly

and attention is now being
turned to the development of
offshore reserves and the
possible exploitation of the
large quantities of heavy
crude oil in the Orinoco
region.

The industry is completely
in the hands of Venezuelans
and provision for spending
on oil development is con-
tained in the fifth national
plan.

Between 1976 and 1980 the
Venezuelans expect to spend
more than \$24,000m. There
are plans to quadruple the
steel industry's present an-
nual production of 1,200,000
tonnes a year by 1986. Money will also be
spent on new hydroelectric
power schemes, petrochem-
icals, aluminium, railways
and shipbuilding and repair
facilities.

Nigeria is producing about
two million barrels of oil a
day and the Government
would like to use the large
quantities of gas that are
found in association with the
oil by selling it in liquefied
form to the United States.

Plans are well advanced
but have not been helped
by the complex United States
regulations on the pricing of
gas imports. A second oil
refinery is under construc-
tion and a network of pipe-
lines for crude oil and re-
fined products is planned to
stimulate industrial develop-
ment.

Spending on the basic ser-
vices also includes the re-
construction of part of the
railway system and the en-
largement of the congested
port facilities in Lagos.

Algeria has also been
affected by the ambivalent
attitude of the United States
towards gas imports. It
named the end of this year
as a deadline for approval
from the Federal Power Com-
mission for the import
schemes submitted over the
past few years. Gas set aside
for projects not approved
will be sold elsewhere; there
is heavy European demand
for Algerian gas.

About 12 per cent of the
world's gas reserves are
found in Algeria, making gas
the country's most valuable
natural resource and the one
most capable of producing
additional foreign revenues.
Algeria does not have the
same problems with basic
services as some develop-
ing countries, but with a
population of 17 million
growing at more than 3 per
cent a year, it has serious
housing and education dif-
ficulties and is channelling
large portions of its annual
budget into these areas.

Greater emphasis is also
being placed on developing
light industries using locally
produced feedstocks to manu-
facture consumer goods that
were previously imported.

The neighbouring oil-pro-
ducing state of Libya has
greater oil reserves but a
less easily discernible de-
velopment plan. It recently
bought a 9 per cent stake
in Fiat for \$250m with the
option to purchase more
shares from 1978, which
could eventually give the
Libyans a 20 per cent hold-
ing in the company.

R.V.

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Soviet Union

Slow progress, not crisis

by Alec Nove

The Russians are in the second year of the ninth five-year plan. This plan envisages rises in national income and industrial production by 26 per cent and 36 per cent respectively (1980 over 1975), which would be credible if achieved. But in order to achieve these objectives, which are more modest than those set by the previous five-year plan, there has to be considerably greater efficiency.

The plan envisages a rise in total investments of only 14 per cent in five years, an unusually low figure. Mr. Brezhnev and Mr. Kosygin would doubtless agree that, unless the investment resources are used more rationally, along with new technology, the plan will not be fulfilled. The demographic position is not favourable, and the bulk of increased output is to come from higher labour productivity. It is in the light of this that one examines Russian performance to date.

Taking agriculture first, the drought of 1975, which led to massive imports of grain from the West, was followed by ample rains in 1976 and a record harvest, and indications for 1977 are good. This should relieve pressure both on the balance of payments and on the patience of ordinary citizens, who have faced difficulties in shopping for food. Is this primarily a result of luck with the weather, or have the massive investments in agriculture contributed significantly to a durable improvement in farm output?

It is too early to say. There are bound still to be serious problems with the supply of such things as meat and vegetables, but a continued slow improvement in agricultural output is probable. The problem is that this improvement has been achieved at a huge cost, borne by the rest of the economy: about 33 per cent of all investments are devoted to the needs of agriculture, directly and indirectly, and the additional productivity is disproportionately small.

The Minister of Finance

has estimated that the live-stock products subsidy in the five years 1976-80 will be 100,000m roubles, almost \$140,000m.

Industrial output has been advancing at a reasonable rate. In the first half of 1977 production rose, according to the official claim, by 5.7 per cent, or at about the rate envisaged for this year. Even allowing for the suspected exaggeration in the statistics, this is not bad, hardly justifying the tone of recent CIA reports about crises and drastic slowdowns.

Among the successes was oil, 5 per cent up on last year and ahead of schedule. I would like to disagree with CIA's estimates of Soviet oil prospects. Granted that Siberian conditions are harsh, costs high and uncertainties many, it seems possible that the output will be reached. This would enable the Soviet Union to increase somewhat exports of oil both to Comecon countries and to the West, though even so the supply position will be tight.

None the less, there are many difficulties. These are most clearly seen if one turns to investment and the commissioning of new plants. In a recent editorial, *Pravda* (August 11) expressed deep concern about delays in construction in mining, metallurgical, chemical, petrochemical, agricultural and other branches, particularly severe delays occurred in the mineral fertilizer industry.

As always, there are complaints about spreading scarce resources around too many investment projects, with resultant increases in uncompleted work. "Over a third of all construction trusts have failed to fulfil the six-monthly plan". With many plants behind schedule, shortages of supplies are inevitable.

The Russian leadership has been making strenuous efforts to overcome these long notorious weaknesses, so far in vain. It is this which leads me to the conclusion that the current five-year plan targets for industrial growth will not be reached, though the shortage should not be as large as is asserted in the recently published CIA report. Of course there are many un-

knowns, not the least of them the possible cost, of the arms race.

Diversion of Soviet effort into competing with American cruise missiles and nuclear bombs is bound to have an adverse effect on an economy with little spare capacity. As it is, a large proportion of the output of what they call "machinery and metalworking" consists of weapons which, unlike civilian machinery, produce nothing. Both quality and technical progress lag behind present-day requirements.

So the general picture seems to me to be one of continued unimpressive progress, with the serious weaknesses in capital construction bound to be reflected in slower industrial growth in the next years of the quinquennium.

Foreign trade in the first half of 1977 rose by the impressive figure of 14 per cent. Incomplete data show a continued trend towards reducing the still large deficit in trade with the West. It has been possible to reduce grain imports, which rose to high levels in the agricultural year 1975-76. Soviet oil exports to a number of European countries (Italy, Britain and France, for example) have risen sharply.

Greater quantities of gas are now piped into West Germany, Austria and France. The Soviet Union continues to import huge amounts of pipe for the ambitious programme of oil and gas pipelines.

The key problem for Soviet trade is how to expand exports to hard-currency countries, and to reduce the dependence on long-term credits. Oil and natural gas sales are growing, but supply constraints affect most fuels and materials. Given that the Soviet Union claims to be only a little behind the United States in aggregate industrial production, it is surprising how small have been the exports of manufactures from there to the West.

The author is professor of economics and director of the Institute of Soviet and East European Studies, University of Glasgow.

Comecon

Twelve bleak months

by Kurt Weisskopf

The past 12 months have been bleak for the Comecon countries. This does not mean that adverse events have disturbed their balance but rather that international economic trends have

developed otherwise than they expected.

The new cooperation programme proposed at the Berlin session of the Comecon council last July providing for integration in 10 to 15 years on five sectors—raw materials and energetics, machinery construction, agriculture and food, consumer goods, public services—did not receive the cachet of final approval by the premiers at the Warsaw session last June; the industrial production plans for 1976 were fulfilled but not overfulfilled—and overfulfillment is an unspoken planning target. Agricultural yields in Poland, Hungary, Czechoslovakia and East Germany were low and capital investments below schedule.

Primarily, because of the failure to keep up the planned investment rate, manufacturing capacities will not be available for rapid industrial growth should the international economic tide turn. Indeed, if the planned investment rate has not been maintained this is partly because of reduced growth in exports to the West, a factor common to all Comecon countries, which results in their difficulties in earning convertible currency to pay for imports of advanced capital goods.

The risk, too, of another poor harvest is very real. Rains during July and August have affected the quality of cereals and flattened crops in wide areas throughout the Comecon countries. This could well mean that they will have to spend convertible currency on grain purchases instead of equipment, plant and raw materials which they require. They are able, of course, to raise funds on the Euromarket and from Western banks.

The credit-worthiness of the Comecon countries was a prime topic at a symposium held at Göttingen in June and attended by the right mixture of leading West German and international bankers, businessmen, industrialists and academics. The aggregate Comecon debt was estimated at \$35,000m to \$45,000m, the country with the highest debt (apart from the Soviet Union's estimated \$16,000m) being Poland's \$11,000m.

But the assets of the Comecon countries seem to be ample enough to justify even larger credits. In fact, Swiss banking authorities which are not exactly inclined to take risks feel that credits adding up to \$60,000m to \$80,000m would be justifiable.

Banks concerned with Comecon credit financing also tend to accept the so-called umbrella theory meaning that each member of Comecon would financially assist any fellow member in liquidity troubles and meet its foreign commitments. Nothing to that effect is written into any of the Comecon programmes, declar-

ations or resolutions, but out of sheer self-interest the Comecon countries are almost certain to shelter any of their weak partners under the "umbrella".

None the less the earlier part of this year was marked by efforts to reduce the debt

continued on facing page

Spain

Economic reform essential

by Harry Debelius

The only hope for recovery from the present serious recession in Spain is the plan drawn up by the Suarez Government to reform and stimulate the economy. Spaniards have seen so-called austerity plans come and go, even during Franco's lifetime, and they are sceptical about whether the latest plan will work or even be enforced.

The Government ran into difficulties last month when the National Breadmakers' Association, having asked to raise bread prices without giving any reply, took unilateral action to reduce the weight of standard loaves, selling small loaves for the price they had previously charged for larger ones.

Since bread is a price-controlled item, the Government reacted by fining and briefly imprisoning the association's leaders. Bakery owners hit back by ceasing to make bread in Madrid; the Government took over the bakeries, and with the help of soldiers and bakery employees reestablished the capital's bread supply. But in the end, after the owners had given in and their association leaders had been released, the Government authorized a price increase, albeit a smaller one than the bakers had demanded.

With inflation running at about 23 per cent on the basis of official figures and 33 per cent according to some estimates by bankers, Spain's "super-minister" for economic affairs, Vice-Premier Señor Enrique Fuentes Quintana—the non-partisan professor brought in by the Prime Minister to solve Spain's economic woes—was still weathering a storm of criticism and passive resistance late this summer, after his announcement of tough fiscal reforms and changes in banking regulations.

If Finance Ministry records are any indication, a tax crackdown is long overdue. According to the latest available ministry figures, only 101 Spaniards admitted to earning more than 15m pesetas (about £104,000) in tax returns submitted for the year 1974, and not one declared earnings in excess of 85m pesetas.

At the time the measures were announced Spain's balance of payments was \$4,200m in deficit and the number of unemployed was between 800,000 and a million out of a total labour force of about 11 million. Investments were down, the Madrid stock market was close to 20 points below its starting level for the year and still dropping, and exports were stagnating. The 20 per cent devalu-

tion of the peseta, announced soon after the inauguration of the second Suarez Government last July, led to the brief return of some of the capital which had left Spain since Franco's death. It proved enough to keep the peseta strong against the dollar for the time being.

However, other measures to accompany the devaluation seemed slow in coming, and there was fear in financial circles that too long a delay might allow inflation to nullify the effects of the devaluation.

The emergency economic plan calls for holding down wage increases as well as prices; but Spain's newly legalized trade unions, with a view to showing workers what they can do for them, have given no sign of any intention to help the Government.

Summer strikes were widespread, including a serious hotel workers' strike at the height of the tourist season which adversely affected what was beginning to look like a good year for the big tourist industry after two poor years.

The concessions won by the hotel and restaurant workers will combine with other rising costs to push up capital.

Additional measures of the Government have been proposed but have not yet been put into effect. The Government has also announced a draft law on the practice of setting up dummy companies for the purpose of reducing tax liability.

Those measures aroused a strong reaction among bankers and businessmen, and some observers believe they stimulate the flight of capital.

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Detail of a self-portrait, Rembrandt (1636), Amsterdam, Rijksmuseum.

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Benelux

Recession may spoil good record

Michael Hornsby

Benelux countries, which with West Germany are so far weathered the 1973 economic crisis better than any others in the world, are now facing an already faltering recovery which may be followed by a second recession in 1978.

The economic policy of the Benelux Government has been directed at four main objectives: bringing down inflation, reducing unemployment, safeguarding the parity of the Benelux franc and controlling public finance. This policy was not significantly altered by the substitution of the Socialists for the right-wing Liberals in the 1977 elections.

If there are doubts about the ability or willingness of the German Government to boost demand significantly, officials in the Benelux countries also fear that the United States, faced with a weakening dollar, will be reluctant to run the large balance of payments deficit required to sustain growth.

As far as inflation and the Benelux franc are concerned, the Government has been fairly successful. In the latter half of 1976 and the early part of this year, the rise in wage costs and prices slowed markedly. Despite some acceleration since then, partly because of the mechanical impact of value-added tax increases introduced on April 1, the overall rise in consumer prices this year is put at about 7.5 per cent compared with 8.8 per cent in 1976 and 12.1 per cent in 1975.

This is well below the average EEC inflation rate of 9 to 10 per cent expected this year, and lower than in any other EEC country apart from Germany and Holland. None the less, it is still nearly double the German rate.

Last year the Government warded off several speculative attacks on the Benelux franc, whose effective external value has if anything

slightly appreciated over the past 12 months.

Belgium and Luxembourg, whose external balance is calculated jointly, have continued to run a fairly hefty trade deficit during the first half of this year, but the overall balance of payments is modestly in the black, thanks to a traditionally large surplus on invisibles and favourable capital movements.

From one point of view, the trade deficit, which reflects some loss in market shares, as well as a decline in competitiveness, is not considered too serious. Until last year, Belgium was running large annual surpluses on current account, and the country's external indebtedness is very low.

All the same, the turnaround in trade performance has had an adverse effect on industrial activity, and has contributed to Belgium's sluggish growth (though still faster than that of many other European countries) and high level of unemployment, which are the main economic areas of political and social concern to the Government.

The Egon plan envisaged a 3.4 per cent volume growth in gross national product, but this forecast was revised down to 2.5 per cent in May when it became clear that there were no good reasons for the assumed improvement in domestic demand on which it was based. Indeed, the stimulus given to the economy by the February measures had proved to be slight.

Unemployment in Belgium is running at a rate of about 6.4 per cent of the active population, which is one of the highest rates in Western Europe, and there is no sign of relief next year. The unemployment rate is especially high among women and young people under the age of 25.

Superficially, Holland appears in a better position than any other Western European country apart from West Germany. The balance of payments is in surplus, and the rate of price rises and the volume of unemployment, while at historically high levels by Dutch standards, are still well below the EEC average.

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Switzerland

A time for optimism

Alan McGregor

A rising turnover. The resulting gradual reversion to a normal level of activity. The overall outlook is still clouded by persistent stagnation in the building industry. While making plain that no further government-initiated measures are to be expected to stimulate the economy, federal finance minister Georges André Chevalaz has said that economic prospects at least justify going ahead with projects delayed during the period of uncertainty.

He said that the enforced restructuring of the building industry had been inevitable. More than any other, it had displayed excessive growth between 1960 and 1972. A similar process, if in lesser degree, has been evident in the other industries, not least in watch manufacturing, so that industrialists now feel themselves better placed than they were five years ago to confront all-comers and prevent the exported proportion of their output sliding below about 38 per cent.

In textile machinery, however, with more than 90 per cent of production exported, orders in hand now represent 4.4 months' output, compared with 4.3 in the first quarter. A thin increase but doubly welcome after three years of almost uninterrupted recession. Nowhere has rationalisation been more painful than in the watch industry, where 35,000 jobs vanished between 1970 and 1975, forcing many people to move elsewhere for new jobs. To counter that, the Government is proposing financial help to those firms which provide new jobs.

In view of stiff competition from the Japanese and Americans, watches have a different type of tremor.

been vulnerable to the effects of the rising franc, compounded with world recession. But famous names have proved surprisingly resilient.

There are still many smaller companies in addition to the larger groupings created by the amalgamations of recent years. More than 600 different types of watch movement are being manufactured, though the experts point out that from the production engineering angle a range based on 50 types would suffice.

Lack of use of production capacity seems likely to increase further the balance of payments surplus, meaning that the national bank will have to make maximum use of the instruments available for holding the exchange rate in line.

If maintained, the growth in private demand will help. This would also do something for additional tax revenue, of which the Federal Government is in dire need. Last year the budget deficit of about 4,000 million Swiss francs or 2.7 per cent of gnp, was the largest in the country's history.

Since the referendum rejection in the spring of its plans for introducing value-added tax, it has proposed a series of other measures for collecting more money which its critics dismiss as "patching up".

With federal expenditure up at least 18 per cent last year, their clamour is for economies. While nobody bothers too much about incidental budgeting difficulties in a country as wealthy as Switzerland, there is speculation that continued argument over government finances might irritate some of the ruling coalition partners to a point where they would withdraw thus causing a different type of tremor.

Scandinavia

Miracle turns sour

by Geoffrey Smith

This has been the year when the Scandinavian economic miracle turned sour. There had been warnings.

For years Denmark had been running a balance of payments deficit and a growing foreign debt; so too had the Finns; and Swedish wage costs had risen so sharply in the past two or three years that there were obvious signs of difficulties in competing abroad and perhaps even at home unless international trade picked up strongly.

But despite such forebodings there was the undeniable fact of an exceptionally high standard of living throughout the area; the Swedish economy continued to thrive while others were sliding into recession; and the flow of Norwegian oil was bringing a new source of income.

Perhaps the Scandinavians did have the secret—or at least the luck.

But that happy belief has been destroyed by the two rounds of devaluation this year. In April the Swedish Krona was devalued by 6 per cent and the Danish and Norwegian currencies by 3 per cent each. Finland devalued by 5.7 per cent.

To some extent these moves might be regarded as essentially technical corrections. As members of the European currency snake Sweden, Norway and Denmark found their currencies tied to the German mark.

As it floated upwards so their currencies had to keep a company, which rendered their exports uncompetitive on world markets. Finland has never been in the snake but for years it has had such high inflation that it could not allow the other Scandinavian currencies to devalue in respect of the Finnish mark and thereby steal a competitive advantage.

But then in August came the second wave of devaluation—Sweden 10 per cent, Norway and Denmark 5 per cent each, with Finland following a few days later with 3.1 per cent. This enabled Sweden leaving the snake, though both Denmark and Norway remained in it.

These decisions, following so swiftly on the heels of the earlier ones, indicated the vulnerability of the Scandinavian economies. Sweden had earlier managed to combine an increase in wage costs of some 40 per cent

over two years with a rate of price inflation that was kept to single figures and a low level of unemployment. Many companies have been operating at a loss; the volume of exports fell instead of showing the predicted rise in the first half of this year; and the country is heading for a record balance of payments deficit.

All Sweden's technological skill and managerial initiative had not been enough to prevent the country pricing itself out of export markets. Denmark's troubles have been less surprising because it has run a balance of payments deficit every year since 1960 and it has been obvious for some time that its currency has been overvalued. It has unemployment of about 7 per cent of the workforce and the balance of payments deficit is at an alarming level.

To correct these failings the Government, with the approval of three of the leading opposition parties, introduced a package of new economic measures to accompany the latest devaluation. The package included higher indirect taxes in an attempt to discourage imports and thereby improve the balance of payments, while using about a third of the money to be raised in that way to create fresh employment.

The Norwegian case is more complex. There is the enormous oil wealth that is already beginning to flow in and that is bound to change the economic balance of power in Scandinavia. During the first five months of this year the state income from oil in Norway was four times higher than in the same period of 1976.

These oil riches, immediate and prospective, make a reasonable policy for Norway to continue to build up a heavy burden of foreign debt, some of it necessarily accumulated in extracting the oil. But the Norwegians have been well aware all along that they cannot live by oil alone, that they could indeed drown in it if it brought wage inflation at home and an overvalued currency abroad.

That combination would make the Norwegian industry uncompetitive on international markets. There are some disturbing signs of that.

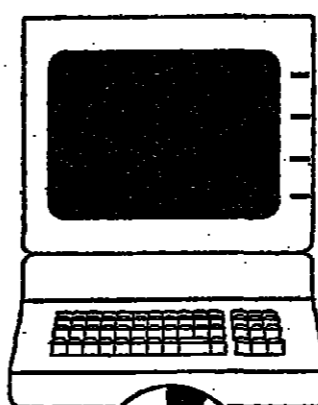
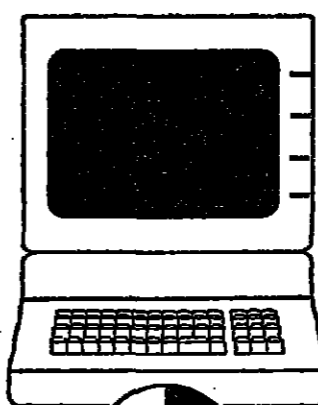
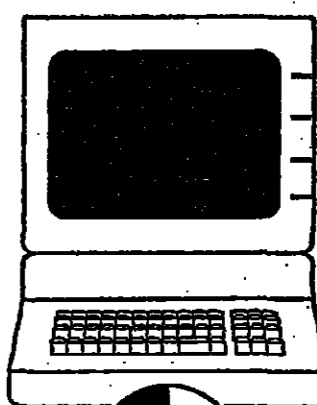
Norway now has the highest unit cost of production in the world, low employment but low growth as well.

Finland presents a paradox. With the notable exception of forest products, its industry has for years found it difficult to compete internationally partly because wages have been rising so sharply and partly because many small and even medium-sized Finnish companies have not been geared to exporting.

Consequently, as industrial development has proceeded so has the degree of foreign debt mounted. Yet of all the Scandinavian countries Finland is the only one to have improved its balance of payments significantly in this difficult year.

There was only a fairly small trading deficit in the first half: from January to July exports rose by 27 per cent while imports went up by no more than 12 per cent. Yet unemployment is expected to be nearly 5 per cent this year and to remain above 4 per cent in 1978. So Finland's economic troubles are by no means over.

On July 1 the free trade agreement between the EEC and the EFTA neutrals came fully into effect, which means that Norway, Sweden and Finland—all outside the Community—will be part of a wider free trade area with Denmark and the other EEC members.

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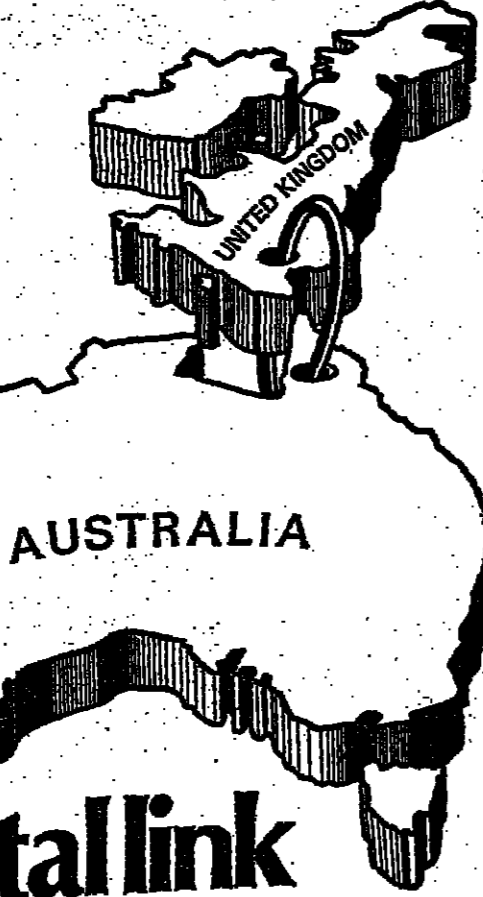
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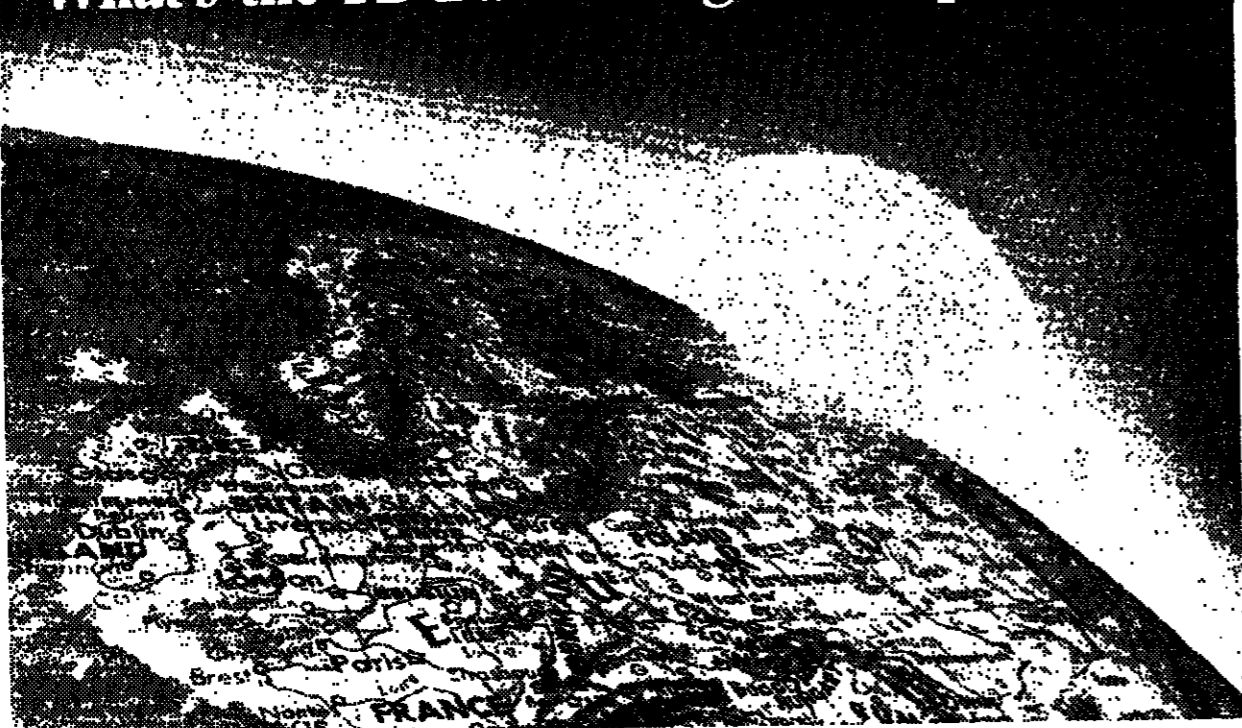
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Southern Africa

Brains as well as cash are drained abroad

by Ray Kennedy

Neat graffiti on a lavatory wall at Johannesburg's Jan Smuts Airport reads: "WILL the last doctor to leave this establishment kindly switch off the light?"

It sums up what has been a traumatic 12 months for the country; not only has there been a sizeable brain drain since the Soweto upheaval in June, but also short-term funds have been leaving the country at almost 100m rands a month, despite restrictive monetary measures, while the long-term inflow dwindled from R1,561m in 1975-76 to R452m in the year to June 30.

In its annual report the Reserve Bank revealed: "The year that ended on June 30, 1977, turned out to be one of the lowest growth years experienced by the economy during the postwar period."

Real gross domestic product rose by only 1 per cent entirely because of hefty growth in farming and non-gold mining output. Construction output fell 10 per cent, wholesale, retail and motor trade 7 per cent and factory production 4.5 per cent.

Unemployment, among whites, coloureds and Asians

more than doubled from 13,379 in mid-1976 to 28,503 in June 1977, about 1.4 per cent of the labour force. Among Africans, for whom no official employment statistics are kept, the estimated number of unemployed rose to between 8 per cent and 9 per cent, according to the Secretary of Labour, Mr. Jaap Cilliers.

Dr. Bob de Jongh, the Reserve Bank governor, noted: "Whatever the true figures, it must be accepted that the matter of (black) unemployment, more specifically in the urban areas, has become a further factor to be considered in determining economic policy."

South Africa is, in fact, in the fourth year of an economic recession which has accelerated dramatically in the 12 months since Soweto. But, although the black urban upheavals have contributed largely to the slide, the real starting point was then Finance Minister—now State President—forecast that the free market price of gold would rise to \$8200 an oz and more and budgeted accordingly.

As Mr. Gerry Muller, chief executive of Nedbank, points out, South Africa has tackled more huge public spending projects in the 1970s than

all that have been accomplished since the end of the Second World War.

It was the only country which had built two harbours (Richards Bay and Saldanha) which, with connecting railways, cost R2,000m. Another R2,000m has been spent by Iscor, the state-owned iron and steel corporation, on expansion of plants now running at 80 per cent of capacity due to the world slump in steel demand.

Escom, the electricity supply commission, spent a further R2,000m, Mr. Muller estimates. Millions more have gone on establishing a television service, converting ports and ships for containerisation and building motorways.

Half of this money was borrowed abroad. Mr. Muller says: "South Africa's problem is that we have reached our limits all round and quotas will not be increased without political changes. Most foreign banks are not really concerned about our economy, but the political conditions in this part of the world have them worried."

The situation, as reported by the Reserve Bank, was not in the year ended June 30 the capital account deteriorated sharply from a net inflow of R528m in the last half of 1976 to a R649m

outflow between January and June this year.

Against this gloom, however, there were some indications from August onwards that the long recession was beginning to level out.

For the first seven months of 1977 there was a surplus of R217m in the trade balance, compared with a R1,246m deficit that hung over the economy a year ago. Although the trade figures exclude gold earnings and the hefty import bill for defence equipment and crude oil purchases, an export-led recovery accompanied by a measure of import replacement, so long as this is not inflationary, is what the Government is hoping for.

To this end, Senator Owen Horwood, the Finance Minister, announced at the end of August that the economy must be given a boost to attract foreign capital.

He said: "If we want foreign business undertakings to plough South African capital back into the economy and new foreign capital to be invested here, we will have to get a new upswing."

But he emphasized that there would only be a "gradual shift in emphasis" in monetary and fiscal

policies because the time was not yet right for a general stimulation of the economy.

"Capital does not flow easily to an economy in danger of financial difficulties because of a too permissive monetary and fiscal policy," he said. "Nor does it flow to an economy cooling off too rapidly and creating the impression of economic stagnation."

It is something of a race against time. The target is to build up an even stronger trade balance ahead of a swing into an all-round recovery drive which is almost certain to see a renewed increase in imports that will erode the balance of payments.

Senator Horwood said: "The degree to which local and foreign confidence returns will be an extremely important factor, probably more weight than marginal changes in our policies on money supply, the availability of credit, interest rates and so on."

Any rise in government spending must involve higher taxes, since Mr. Horwood has admitted that the cooling of the economy has adversely affected the tax basis, and the South African workers, both black and white, are already badly strapped for cash.

Tough wage restraints over the past year have resulted in average white wages increasing by 9.1 per cent last year and by 11 per cent for blacks. The inflation rate was 11.1 per cent.

But what is really needed, according to many government critics, to get the economy moving are some genuine political answers.

In the past few months there were some encouraging signs: a commission to study the pass laws, migrant labour and laws governing the location of industrial plants. Another commission—the Wiehahn Commission on Labour Matters—is due to report to Parliament in January and it is largely expected that it will recommend some form of recognition of black trade unions, a situation causing increasing difficulties for multinational companies operating in South Africa.

As far as South Africa's neighbours are concerned, the crunch in its economy and the drive to reduce imports must have had a serious effect. Rhodesia, particularly, depends crucially on South Africa for its external trade as well as oil.

The three former protectorates of Botswana, Lesotho and Swaziland are heavily dependent on trade with Pretoria, while two-way

trade with Mozambique almost dried up.

Mozambique's only links from South Africa are rail and harbour and payments for U-Bassa power since arrangement by which per cent of Mozambique's pay was paid by Barclays Bank has been cancelled.

The closure of the bique's border with Mozambique has severed the rail between South Africa and Malawi, but air between the two countries has increased sharply about 70 tons a week.

These are the hope the coming year by situation as the current period ended was born by an opinion survey listed by Barclays Bank Report.

No fewer than 70 per cent of all retail and wholesale customers said they expected business conditions to worsen in the next six months. This pessimism was reflected in dealers in foodstuffs, clothing, footwear, furniture, household appliances, manufacturers, about 60 per cent expected that conditions in the next six months would remain depressed and 68 per cent in the building construction industry expected activity to decrease.

Australia and New Zealand

New mining schemes could help economy

by Robert Gottlieb

Australia has started the 1977-78 year with a number of key sectors in the economy either flat or depressed. There seems little likelihood of any substantial change during the year.

The lack of economic development has disappointed many Australians and has led to a serious decline in support for the Fraser Government, which enjoys a large majority.

The Government is reluctant to take any substantive measures to move the economy along, fearing the effects such a move would have on inflation which is running at about 10 to 12 per cent a year.

The best chance of improvement in the next year or two appears likely to come from the start of construction on a number of large mining projects unless the world economy picks up unexpectedly.

The Government's aim is to keep the nation's spending to a minimum. Although there has been some improvement in the balance of payments the economy still has a long way to go before the restrictive policies can be abandoned.

In Australia three of the most depressed industries are steel, housing and the motor industry.

Unlike the other two, steel has been in the doldrums for some years—reflecting the fall in world demand and the fact that capital spending in Australia has been depressed.

Australia's steelmaker, Broken Hill Proprietary Co. Ltd., has been fortunate to be able to offset its declining steel earnings with profits from oil.

The motor industry has been one of the best features of the Australian economy in recent years, but there are large stocks of cars and the companies want to lay off employees.

Australian motor makers have almost guaranteed shares of the market. Despite the depression there is considerable capital investment in the industry, reflecting moves by Japanese car-makers to establish Australian manufacturing facilities and the small car-making capacity being installed by the existing groups.

Housing did well for most of 1976-77 but declined in the final quarter. Both homes and other building are expected to be down again in the September quarter.

Australian corporate profits rose by between 25 and 32 per cent for the first three quarters of 1976-77 but by only 9 per cent in the final quarter. They are unlikely to rise at the 1976-77 rate this year.

When Australia devalued by 17 per cent in November, 1976, it was widely predicted that it would result in a big increase in inflation. However, because of the difficult trading conditions for the later part of 1976-77, companies were unable to pass on the price rises and inflation did not rise as expected.

At the same time the Government allowed the Australian dollar to move upward to the point where

the original devaluation was less than 10 per cent.

After the devaluation there was a move to bring in local borrowers felt the currency was stable and overseas interest rates were much lower. The Australian Government borrowing rate is 10.5 per cent for long-term securities.

Realizing that this would lower Australian interest rates, which might stimulate the economy and rekindle higher rates of inflation, the Government put strict limits on overseas money coming in for anything but new projects.

Along with more difficult export trading this contributed to a rundown of Australian overseas reserves and has led to renewed speculation that the Australian currency, the Government made a small devaluation in August but this has not stopped the speculation.

Unemployment is running at 5.4 per cent of the workforce and is at a level which most Australians find unacceptable. It is likely to rise further at Christmas when school leavers arrive on the job market.

There is little doubt that job insecurity is the main reason for the lack of consumer demand, which in turn depresses capital expenditure. Manufacturing enterprises are operating on average at about 80 per cent of capacity.

It is understandable that there should be an increase in union activity because real wages have been reduced and are likely to be further reduced this year.

The Government is expected to move the growth rate in gross non-farm product of about

2 per cent for 1977-78.

The December 1976 figure rose 2.9 per cent and fell by 1.4 per cent in the June 1977, but many economists think the Government may be able to do better.

Inflation will be in the 10-11 per cent range by the end of the year, but it is gradually moving towards a world oil price. It has been pricing a Bass Strait and Australian crude, accounts for 70 per cent of usage, at \$23.9 a barrel, compared with a world average of \$18.

Australia is in a major energy in the 1980s. Sent groups like the (through CRA), BP are clamouring an increased stake rather coal reserves. The North-West development promises the largest mining undertaken in 4 while uranium mining provides a strong link payments in the 1980s uranium mining will supply for the needs of the Labour Party has a policy call for a delayed delay on exports.

While the world remains slack there is hope of substantial investment in Australia's energy mining venture. However, on the side there is strong that there will be a that improvement world market particularly in the States.

The author is on the Review of the Australian non-farm product of about

Australia

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Brazil

Coffee prices could mean trade surplus

by Patrick Knight

This has been the year when responsible political debate has returned to Brazil after an absence of 12 years. There are hopes that moves towards complete participatory democracy might be made soon. But it has also been a year when the massive foreign debt, now standing at about \$29,000m, increasing by some \$2,000m a year, is becoming like an elephant.

The benefits of rapid development now seem almost outweighed by the constricting economic pressures brought by the debt. There seems no way out in the short term. Record export earnings will be achieved through high coffee

and soy prices, while industrial exports remain buoyant, and the balance of trade could well be in surplus for the first time for several years.

But Brazil now has to devote more than 40 per cent of foreign earnings on servicing and paying back the debt. And as the debt increases to some \$35,000m by the early 1980s, this proportion will rise to above 50 per cent of all exports. The other great constraining factor is oil. Again, some 30 per cent of exports, or almost \$4,000m, have to be spent on essential oil purchases.

Considerable political pressures have been building up during the past year for the economic model to be modified to benefit the Brazilian people as a whole. Surprisingly varied groups are now pressing for the

economy to provide more food, clothing, and consumer durables, better homes and main services for the mass of Brazilians whose purchasing power has been queuing during the past 10 years.

At the moment, Brazil's credit rating is such that it is able to raise the \$6,000m to \$7,000m needed each year to service the debt, repay the loans which fall due (\$4,000m is due this year) and new borrowings to pay for the projects which will be needed to repay the debt in future.

Last year saw the municipal elections of November, when the Government tried hard, by fair means or foul, to improve on its poor performance at the general elections of the previous year. Those able to claim a victory, but in fact did far less well than at the equivalent

election five years previously.

When the opposition MDB party, encouraged by its growing support, blocked an unpopular legal reform requiring a two-thirds majority in Parliament at Easter, President Geisel wasted no time. He closed Congress and changed the rules of the game so that only a simple majority would be required for such reforms in future.

In recent weeks, attention has moved to the selection of the next President. The President of Brazil is king, prime minister and tends to control most of the other portfolios as well. During the Geisel administration, all the important decisions have been taken right at the top. So the selection of his successor, by an "emergency" process similar to that by which leaders of the Conservative Party used to be

chosen, is of tremendous importance.

Favourite at the moment is the head of the internal secret service (rather as if J. Edgar Hoover had been made President of the United States). It may well prove that General Figueiredo, a hard-liner, might have reached his peak too soon. The infighting among the generals has certainly started in earnest. If a stalemate occurs—quite a possibility—a civilian might get the job.

The past year has seen serious opposition to the regime from until now quietest groups, such as businessmen, students and academics. The church continues to be a very vocal critic, trying to ensure that the point of view of the neglected rural masses, and forgotten minorities such as Indians, gets a hearing in this country of big baronies.

The equivalent of the "enclosures" process in England is occurring, with the simultaneous development of labour-intensive industry, or colonies to absorb the displaced manpower. If as a result of improved services, the infant mortality rate in São Paulo has stopped soaring for the first time in 12 years, Rio de Janeiro is now one of the world's most violent cities.

For many people, the politics of Brazil and the fate of its 110 million inhabitants is considerably less important than the performance of its economy. The frost which affected the coffee-growing areas two years ago, and the subsequent running down of stocks, has brought a large windfall profit. Earnings so far this year are more than \$2,000m. The long and harsh northern hemisphere winter also meant that demand for soya was high. By holding

on to stocks in the hope of even higher prices, less was earned than might have been as prices are now dropping fast.

Agriculture is at least being given proper priority, and Brazil will rank second among food exporting nations this year. Larger loans to farmers and a serious research effort is beginning to be reflected in productivity.

Although Brazil can boast of being the world's fifth largest shipbuilder, ninth car producer, and is a massive exporter of textiles and shoes, to whom is it to continue to sell its goods? It is increasingly in danger of being undercut by the latest low-cost producer to emerge from the Third World. The developed countries, finding their economies under severe pressure, with unemployment levels reaching intolerable levels, are beginning to look carefully at Brazil's incentive and rebate schemes. Manufactures account for 40 per cent of all exports, but this proportion has ceased to grow. New markets are having to be found in Africa and Asia.

Brazil is now at a crossroads. It could turn in on itself, selling consumer goods to its own long-suffering population. Besides workers and students, manufacturers serving the home market, many powerful multinationals among them, would like this course to be followed, and are pressing for a return to democracy. Many businessmen, faced with stagnant sales and the increasing difficulties of exporting, say they accept the consequences of greater worker participation and re-wards. But how then will Brazil keep its creditors at bay? How can it adopt what is dubbed a more nationalistic line yet still be an acceptable client for new loans?



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Spanish America

Upsurge in foreign borrowing

by Michael Frenchman

There has always been a close United States involvement with Latin America primarily for historical and geographical reasons. Because of its multi-million dollar investments in the form of direct and indirect loans, industrial development and expansion, with political consideration, the United States has kept a watchful eye on the Latin countries.

Mexico and Brazil have a combined debt of about \$50,000m, about a third of the total debt held by the world's developing countries. According to a Morgan Guaranty Trust report, the 16 largest of the less developed countries had an estimated total debt of \$124,000m at the end of last year. Of this amount \$77,000m was held by seven Latin American countries:

	\$US('000m)
Brazil	26.7
Mexico	8
Argentina	5.3
Chile	4.5
Peru	4
Venezuela	3.6

The most significant development in 1976 was the enormous increase over the previous year in lending by the European banks, which reached a record figure of \$200m. This compared with \$500m in 1975. These figures only take into account publicised medium-term Eurocredits and allocations must be made for her credits which would have been taken up mainly by Brazil and Mexico.

This sharp rise in international debt by Latin America has caused anxiety in the United States where major commercial banks are under fire for lending to "third rate developing countries" while American industries were in need of finance them-

selves. But international losses, while having increased slightly, have been nowhere near those on domestic loans. However, this anxiety has in no way been exacerbated by President Carter's stand on human rights aimed principally at the various military regimes in Latin America, notably Chile and Argentina. If anything, it has only encouraged some bankers to take an even closer look at the economic and industrial development being carried on in these and other countries; and it would seem that they have been suitably impressed by what they have found, as there has been no reduction of medium-term financing.

Much earlier this year Dr Zimmerman, vice-president of Argentina's Central Bank, said he thought the human rights issue might cause some difficulty.

But Dr Alfredo Martinez de Hoz, Minister of Finance, dismissed this lone voice as "nonsense". There may have been a slight cooling off period but after April bank-ers seem to have ignored President Carter's strictures and concentrated on practicalities and the realism of the long-term creditworthiness of Argentina and Chile.

The record shows that the banking community certainly favours political stability as the main credit criterion. Argentina, with President Videla heading the military junta and Dr Martinez de Hoz planning a democratically-based growth of the economy, seems to be preferable to the failure of a weak democratically-minded Peru. The three most dramatic developments in Latin America this year have been in Mexico, Argentina, and Chile. Just over a year ago Mexico devalued the peso after 22 years of parity with the dollar. This caused a temporary hiatus, particularly in the United States.

which has now been overcome.

Recently, President José López Portillo, in his first state of the union message since he took office last December, confirmed the silver lining on Mexico's economic stormclouds. While admitting that the country would continue to go through a period of industrial stagnation and high unemployment, oil would become the main pillar of the economy. Oil and gas are bringing the Mexican economy into prominence and the next decade will undoubtedly see what may become one of the fastest growth rates in Latin America.

Señor Jorge Diaz Serrano, director of PEMEX, the state oil concern, has spoken of the country's enormous resources. These have been confirmed as 16,000 million barrels and include large quantities of gas which will be exported through a new pipeline to the United States. Last May production reached a million barrels a day.

Publicized medium-term Eurocredits to Latin American borrowers (\$m)

	1975	1976
Argentina	34	1,302
Bolivia	90	155
Brazil	2,120	2,568
Chile	—	180
Colombia	117	110
Costa Rica	46	15
Ecuador	46	17
El Salvador	—	7
Guatemala	—	15
Guyana	—	4
Honduras	—	10
Mexico	2,158	1,980
Panama	115	192
Peru	433	440
Uruguay	130	82
Venezuela	200	1,127
Total	5,543	8,214

Source: World Bank

Black Africa

Defensive strategy a success

David Coetzee

Africa's economies have recovered to some extent from the effects of oil price increases, massive inflation and imported goods and raw commodity prices in 1975.

Their general defensive strategy had involved a concentration on agriculture, in particular food crops, together with stricter controls on imports of vital goods. In many countries an improvement, indicated by higher cash prices, is now visible. Liberia's attempt to make itself self-sufficient in food Operation Feed the Nation, started last year, has been a modest success.

Kenya's economy has seen an overall 3 per cent rise in production. Production has eased from 35 per cent in 1975-76 to 20 per cent in 1976-77. The restrictive and corrective measures being continued. In real terms, the economy grew 10 per cent in 1977 compared with only 7 per cent in 1975-76. Oil production played a large part in this good performance, increasing by 14.3 per cent over the previous year's. But there was an all balance of payments in last year of \$242.6m. 1.15 Naira, reversing the favourable trend for the three years (in which exports increased by 7 per cent and imports by 27 per cent).

Its West African neighbour, Ghana, Operation Feed the Nation, launched five years ago, the volume of imports has increased, but the country is still facing large food bills as well as for industrial materials. Last year there was no increase in agricultural output, largely because of adverse weather conditions; a famine

in the north of the country is now reported.

Ghana's main product is cocoa but it has been unable to take full advantage of the rise in prices because of a poor harvest (300,000 tons), marketing miscalculations, and smuggling—estimated to have diverted 18,000 tons. Cocoa production was less than satisfactory in the Ivory Coast, Cameroon and Guinea as well.

The imbalance among the partners was seen as one of the reasons for the demise of the East African Community founded in 1967 by Kenya, Tanzania and Uganda. There had been some feeling that Kenya had dominated the EAC and benefited at the expense of its two partners.

But within their national economies Tanzania and Kenya have been overcoming the troubles of 1974-75. There has been a revival in Kenya's largest foreign exchange earner, tourism, which brought in the equivalent of £40m in 1976, and coffee prices have been good.

In Tanzania there was a threat of famine in 1974, but now the food yields are better after the launching of an intensive food production drive. There was a general improvement in the economy in 1975-76. The balance of payments has improved through borrowing from the International Monetary Fund and from higher prices for commodities. There was a surplus of £11.15m compared with a deficit of £133.8m in 1974-75, and the rate of inflation has also declined sharply.

The recent booming coffee prices have come to the rescue of the Ugandan economy, where deficits have been accumulating since 1973-74. In 1976-77 Uganda earned \$5 per cent of its

export revenue from coffee and a surplus of 2,543.9m sh was forecast.

Last year a formula for settling Zaire's debts was arrived at, but because of depressed copper prices, repayment problems and the Shaba war, Zaire has not been able to fulfil the terms. In July the "Club of Paris" (11 creditor nations including Britain) met again and rescheduled about the same \$US350m it had rescheduled last year. The total outstanding debt is about \$2,000m.

One important sector of the Angolan economy undamaged by the war is the Cabinda oilfields. The Government will receive about \$500m a year from Gulf Oil, about 60 per cent of its annual revenue, which will give it a large trade surplus.

Coffee is Angola's most important cash crop; production before the war was about 3,500,000 bags a year but dropped sharply during the war. Foreign exchange reserves will be helped by the improved prices.

Angola's reconstruction effort was set back by a leftist coup attempt in May which found little support but succeeded in killing some senior government officials.

In the midst of the battles a thoroughgoing land reform has been taking place in Ethiopia and production of food and cash crops has been, surprisingly, maintained.

Coffee is the main cash crop, contributing about 60 per cent of exports in normal times; exporting difficulties stem from the tanning of the railway to Djibouti and the war in Eritrea.

The author is executive editor, New African Development.

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by David Bonavia

There is also a strong possibility that within the next few years China will be buying armaments such as military aircraft, guidance and tracking systems, and anti-tank missiles.

To pay for this enormous bill of goods, and for all the other miscellaneous items which a large economy needs to modernize itself in

But China's historical experience of debt is so bad that Mao's misgivings on this score may well be shared by some of his more practical-minded successors. The scope and philosophy of overseas borrowing will probably remain as controversial as any other single economic issue in Peking in the 1980s.

by Anthony Rowley

This has led to a drive towards industrialization

The ASEAN concept has proved to be a rather slow starter, however, as the disagreements at the second ASEAN summit, held in Kuala Lumpur in August,

over economic priorities,
unrepealed all too clearly.

The ASEAN group at least has the stimulus of some \$US1,000m of aid promised by Japan to finance five projects, provided they are cost-effective. The five ASEAN projects and provided they prove feasible. Even so, progress still looks like being slow because of the political rather than commercial origin of the projects and the bureaucratic route chosen for their implementation.

Meanwhile, the Singapore economy looks relatively healthy with most sectors contributing to a 7 per cent increase in real gross domestic product last year, a performance which could well be repeated this year. Moreover, the overall balance of payments remained in surplus to the tune of \$719m last year, albeit somewhat lower than the \$966m sur-

most primary capital countries. Overall, the balance of payments reversed from a deficit of \$US982m in 1975 to a surplus of \$US732m last year.

While this year has seen the conclusion of the massive operation mounted by the Indonesia Central Bank

In the Philippines, where the country's outstanding debt obligations stood at \$185,557m and its debt service ratio at 17 per cent at the end of 1979, national businessmen in government service, like even Mr. Manila claims, however, that international lenders are undeterred these "consumable" real Philippines gap grew by per cent in real terms a year but the balance payments current account deficit stood at \$185.4m, despite the Philippines' agricultural and mining commodities.

The author is Singapore correspondent, Far East Economic Review.

Export-led recovery continues

South Korea

Aggressive world trade force emerges

by Simon
Scott Plummer

The inclusion of an article on South Korea in this review is recognition (some would say belated recognition) of that country's growing impact on the world economy. Although Japan and the United States remain its chief trading partners their importance has declined with the opening of new markets in Europe and the Middle East. Many shops in Britain

Hyundai Construction, for example, has six projects, worth \$1,912m (£1,105m), and nearly 11,000 employees in Saudi Arabia alone. Last year that country was the third most important trading

The scale of operation is much smaller than that of Japan but the determination and flexibility are the same. The past year has both proved the economic resilience of South Korea and exposed its political vulnerability.

A rough period in its relations with the United States, its main ally. First, there was a bribery scandal, still under investigation, in which South Korean agents were accused of having collected millions of dollars from American congressmen in order to create an atmosphere favourable to Seoul on Capitol Hill.

On top of this came the advent of the Carter administration, with its critical attitude towards treatment of political dissidents by Presidents. And its decision to withdraw 33,000 American ground troops from South Korea over the next four to

If the United States Congress approves the necessary aid, South Korea could buy about \$7,000 million worth of arms over the next few years. A defence treaty which was introduced in 1975 and is expected to bring in \$639m, or 10.8 per cent of government revenue, in the form of US military aid. It is not much of this. Some commentators estimate that defence spending could rise to 10 per cent of gnp.

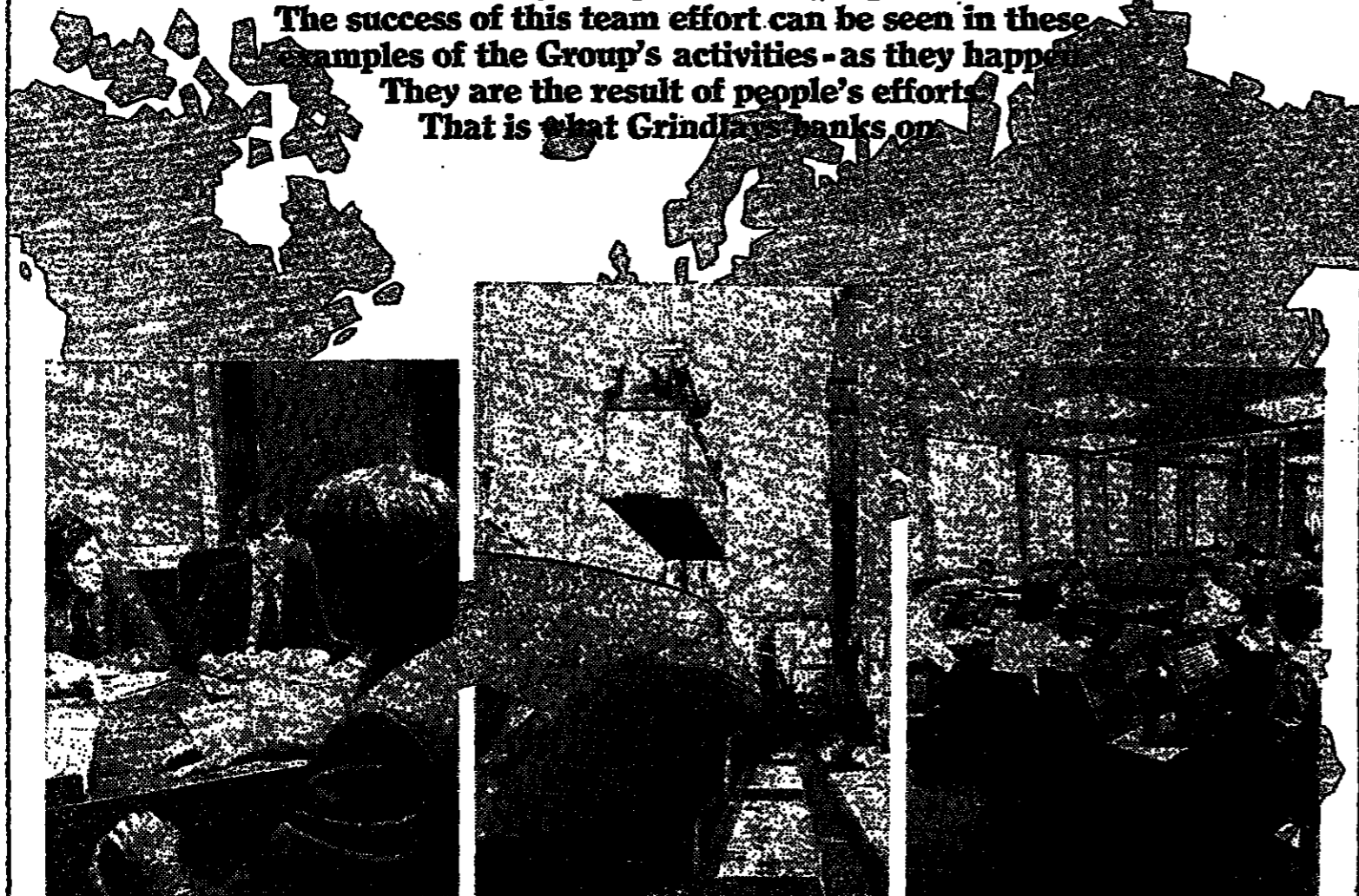
President Park has said that South Korea should be

provide jobs for a rapidly expanding labour force to increase the value goods for export. The Government's forecast of economy in the next months of the new plan has been encouraging. Kap from January to August last year were worth 56 per cent and for the first time current accounts showed a surplus of \$1,400m, part result of compression of pay earnings in the M. East. Foreign exchange earnings amounted to \$3,583m the end of June, 5 per cent higher than six months before.

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